



5 May 2010

Significant Milestones in Acquisition of Kwale Mineral Sands Project

HIGHLIGHTS

- Base has now completed due diligence enquiries to its satisfaction.
- The Government of Kenya has approved the transfer.
- Experienced mineral sands executive, Colin Bwye, to join Base as Executive Director – Operations and Development.
- Technical review confirms a “world class” project with a projected cash margin that would place it in the best performing quartile of the global mineral sands industry.
- Estimated capital development cost of US\$180 million generates a post-tax operating surplus of US\$570 million over 11 years, representing an IRR of 28% (real).

Base Iron Ltd (“Base”) (ASX:BSE) is pleased to announce that two key conditions precedent for the acquisition of the Kwale Mineral Sands Project (“Kwale Project”) from Vaaldiam Resources Inc¹ (“Vaaldiam”) (TSX:VAA) as announced on 26 February 2010 have now been satisfied and that it will move to secure shareholder approval. In addition, a highly regarded and experienced mineral sands executive, Colin Bwye, will be joining the Base team as we progress the development of the Kwale Project.

DUE DILIGENCE COMPLETE

A substantial due diligence exercise, incorporating independent marketing analysis and technical and legal reviews, has now been completed. This work has confirmed the view that the Kwale Project is a robust project representing an outstanding opportunity for Base shareholders to acquire an advanced and highly competitive project in a sector with a significant forecast supply shortfall emerging in the medium term.

GOVERNMENT OF KENYA APPROVAL

Under the terms of the Special Mining Lease and Fiscal Investment Agreement (refer below) for the Kwale Project, the consent of the Government of Kenya, through the Commissioner of Mines & Geology, is required for any transfer. The Commissioner has now provided the required consent in writing.

¹ Formerly Tiomin Resources Inc.





The Government of Kenya has consistently expressed a high level of support for the Kwale Project and a desire to see it developed as rapidly as possible. Our experience in dealing with the Government of Kenya in relation to our proposed acquisition has been entirely consistent with a continuation of this support.

APPOINTMENT OF COLIN BWYE

Colin will be joining Base in late July in the role of Executive Director – Operations & Development. In this role, he will have primary responsibility for bringing the Kwale Project through development and into operation. Colin has an extensive knowledge of all aspects of the mineral sands industry, including downstream processing and marketing of mineral sands products and has an extensive network of contacts within the industry. He has also been responsible for bringing a number of development projects into production. He has a deep understanding of Kenya, having been born there and lived there prior to migrating to Australia in 1987.

Colin is presently Managing Director of Western Australian mineral sands producer, Doral Mineral Industries Ltd, a subsidiary of Iwatani Corporation of Japan. In addition to the core mineral sands operations, Doral also has fused materials and specialty chemicals operations. Colin has over 20 years 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. He has held senior positions with a number of companies in the sector in roles including plant superintendent, mining superintendent, production manager, operations manager and managing director. Colin joined Doral in 2001 and was appointed Managing Director in 2006.

SHAREHOLDER APPROVAL AND CAPITAL RAISING

With the key conditions precedent satisfied, Base will now progress to seek shareholder approval and complete the previously advised capital raising of approximately \$8 million through a combination of a share placement and a 1 for 1 non-renounceable rights issue. The Company expects to be in a position to make a further announcement in relation to the timetables for these activities shortly.

RFC Corporate Finance Ltd (“RFC”) has been engaged to arrange the placement and underwrite (subject to conditions) the rights issue and is acting for Base as its corporate adviser on the acquisition. The placement is being made to sophisticated investors associated with RFC. Both the rights issue and placement will be at A\$0.09 per share.

THE KWALE PROJECT

Highlights

- Mineral sands market fundamentals present an opportunity for new supply to enter in an environment of escalating prices and supply shortfall.



- The Kwale Project represents an advanced development opportunity with all material project approvals, permits and licenses required for development currently in place and a full Definitive Feasibility Study (“DFS”) having been completed, representing an investment of in excess of US\$40 million by Vaaldiam.
- Initial development at Kwale is based on mineral resources of 138.8mt at 4.65% Total Heavy Minerals (“THM”) at the Central and South dunes.
- The Kwale Project is expected to produce an average of 330ktpa, 80ktpa and 35ktpa of ilmenite, rutile and zircon respectively over the first six years of operation from the higher grade Central dune before declining to average 190ktpa, 55ktpa and 25ktpa over the subsequent five years.
- Two pilot plant operations give confidence in processing behavior and indicate a suite of readily marketable products.
- High value mineral assemblage and low stripping cost results in a projected “revenue to cash cost ratio” that would place Kwale in the top quartile of world producers.
- Estimated capital development cost of US\$180 million generates a post-tax operating surplus of US\$570 million over 11 years, representing an IRR of 28% (real).
- While there are no fatal flaws with the project as conceived in the DFS, a number of issues and opportunities have been identified to be addressed in an enhanced BFS to be completed over the balance of 2010.
- A realistic development time line should see the Kwale Project in production in 2013.
- Large additional resources at the North Dune and Exploration Projects provide extension and expansion options.

Market Outlook

The acquisition of the Kwale Project is motivated by a strongly held view that it represents a “world class” advanced project that is well positioned to take advantage of a forecast sustained opportunity in the mineral sands market.

Ilmenite and rutile are feed-stocks for the production of titanium dioxide (TiO₂) pigment used in the production of high quality finishes. Due to these end uses, titanium pigment is essentially a lifestyle product. Historically, its use has developed strongly in the most economically developed countries of the world where it is an essential component of basic consumer products, such as housing, motor vehicles and plastic products. Over past years, global consumption of TiO₂ pigment has consistently grown at rates close to 3.1% per annum.

Zircon has a range of end-uses, the largest of which, accounting for 53% and 16% of global consumption in 2008 respectively, are in ceramics and zirconia-based chemicals. Consumption of zircon has grown at a compound average rate of 3% between 2000 and 2008 with the principal driver of this growth being the industrialization and urbanization of China.

Respected industry experts, TZ Minerals International (“TZMI”), are forecasting the emergence of significant supply deficits in each of the sulphate ilmenite, rutile and zircon markets by 2013. With demand for all three products expected to at least



maintain their growth trend of the last 10 years, supply deficits are the result of depletion of existing operations and the impact of the sustained low prices of the last several years being insufficient to induce the development of new projects capable of supplying the required volumes.

With this outlook of supply constraint, an increasing overall upward trend in ilmenite, rutile and zircon pricing is expected with prices forecast by TZMI to reach US\$125/t, \$690/t and \$1150/t respectively by 2014.

Project Background

The Kwale deposits are located in Kenya, approximately 50 km south of Mombasa, and 10 km inland from the Indian Ocean with roads and tracks giving good access to the site from the main coastal highway (**Figure 1**).

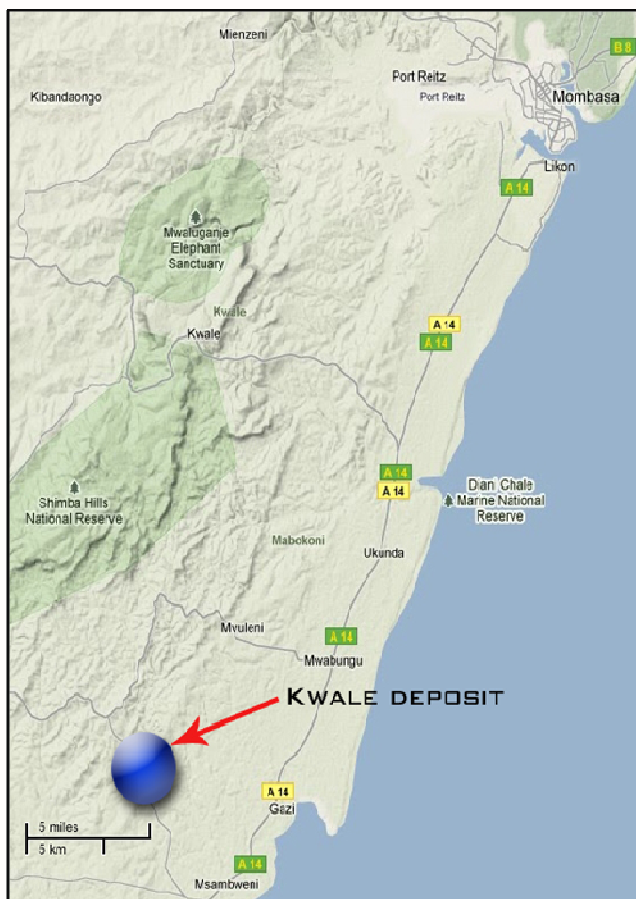


Figure 1- Project Location

The deposits lie within the Magarini Sands formation, which forms a low ridge of hills running parallel to the coast. The existence of the Magarini sand dunes has been recognized for a long time but no detailed geological work had been carried out and their economic potential evaluated prior to the involvement of Vaaldiam in 1995.

Vaaldiam progressed the Kwale Project through resource definition, development of a Definitive Feasibility Study (“DFS”), government approval and ultimately to the securing of debt financing for the development of the project in 2006. The original project timeline expected construction to begin in the second half of 2006, with first production in mid-2008. However, in late 2006, disputes with affected farmers over land title and resettlement compensation was the trigger for delays with the project that ultimately saw the funding terminated. By the time these issues were satisfactorily resolved, the world economic outlook made re-establishing debt funding impossible. Subsequent attempts to secure financing through investment by a Chinese off-take partner, Jinchuan Group, ultimately failed in late 2009 for reasons considered unrelated to the Project.





The following provides a summary of the Kwale Project's progression:

- 1995** – Initial reconnaissance exploration along coast identified Mamburi, Kilifi and Vipingo (refer to Exploration Projects below) and Kwale;
- 1997** – Exploration license for Kwale granted;
 - Drilling completed, decision made to proceed with Kwale;
 - Base line environmental study undertaken, aerial photo survey completed, work on Environmental Impact Assessment (“EIA”) started;
- 2000** – First feasibility study completed;
 - 7-volume EIA completed and presented to Government of Kenya;
- 2001** – Court injunction granted to landowners halted all activities; lifted in 2002;
- 2002** – EIA approved and environmental license issued;
- 2003** – Environmental management plan approved;
 - Pilot plant constructed and design criteria confirmed for DFS;
- 2004** – Special Mining Lease issued;
- 2005** – Fiscal Investment Agreement with Government of Kenya signed;
 - Resettlement Action Plan approved;
- 2006** – Resettlement programme commenced;
 - Project finance secured, contractors appointed, construction commenced;
- 2007** – Project halted pending resolution of resettlement and compensation disputes;
- 2008** – Memorandum of Understanding with Jinchuan signed;
- 2009** – Investment Agreement with Jinchuan signed; terminated by Jinchuan in October;
- 2010** – Vaaldiam and Base Iron Limited sign a binding Heads of Agreement

Current Status

All material leases, licenses, permits and government agreements necessary to allow development of the Project to proceed are in place, including the key Special Mining Lease (“SML”), environmental permits and a Fiscal Investment Agreement with the Government of Kenya which provides a range of government undertakings and significant tax concessions for the Project. This suite of licenses, permits and agreements are to be assigned to Base at settlement, with the Government of Kenya having now provided its consent, along with the land titles for the port and processing facility sites.



The resettlement program that caused the delays to the intended 2006 commencement of the project has been completed, with all former landowners and squatters compensated and relocated from the SML to newly allocated land. A small number of farmers who occupy land to be impacted by the ultimate construction of the Mukurumudzi dam have been allocated new land plots but are yet to be relocated and compensated although the formula for doing so has been established.

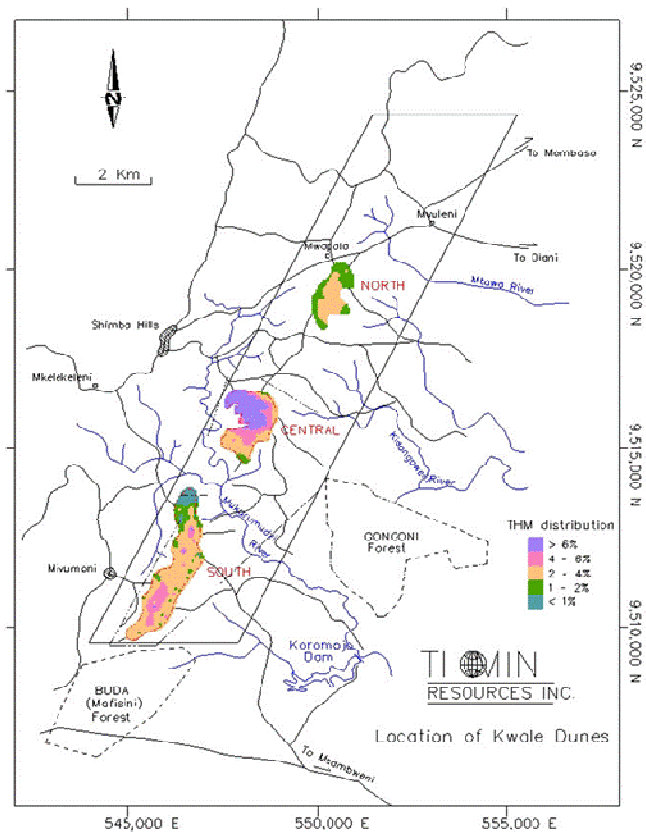
The project continues to enjoy a high level of Government and community support, albeit tempered with a measure of impatience at the delays to the project's commencement. Importantly, the Government of Kenya regards Kwale as a project of national significance and, as such, is committed to seeing its development.

Mineral Resources

The Kwale deposits lie within the Magarini sands formation and the three mineralised zones, Central, South and North occur as unconsolidated dunes (**Figure 2**).

The Kwale Project DFS is based upon the Central and South Dunes with a combined resource as publicly reported by Vaaldiam of 38.5mt at 6.8% Total Heavy Mineral ("THM") in the Measured category and 101.5mt at 3.8% THM in the Indicated category (**Table 1**). A further Indicated Mineral Resource of 116mt at a grade of 2.1%THM has been reported at the North dune. These resources were audited by independent consultants to Vaaldiam, SRK, and are JORC compliant.

The Central Dune has an average thickness of 29 metres with the upper section exhibiting a higher grade (>5% THM) than the lower section (1-5%). There is a particularly high grade area in the northern part of the Central Dune where grades can exceed 10% THM. For the dune as a whole, the heavy mineral content averages 5.7%. The South Dune has an average thickness of 19 metres with an average heavy mineral content of 3.5%.



e Kwale dunes





<i>Dune</i>	<i>Classification</i>	<i>tonnes x 10⁶</i>	<i>THM (%)</i>	<i>Ilmenite (%)</i>	<i>Rutile (%)</i>	<i>Zircon (%)</i>	<i>tonnes HMC x 10⁶</i>
Central	Measured	38.51	6.79	3.95	0.90	0.50	2.61
Central	Indicated	30.24	4.54	2.47	0.63	0.32	1.37
South	Indicated	70.1	3.5	1.4	0.4	0.2	2.45
North**	Indicated	116.0	2.1	1.0	0.2	0.1	2.44
All	Total	255.0	3.48	1.73	0.41	0.21	8.87

Note: ** No pre-stripping assumed.

Table 1: JORC Compliant Mineral Resource Estimate

Mining and Mineral Processing

The Kwale dunes are considered amenable to a continuous mining technique, with a bucket wheel excavator and overland conveyors contemplated in the DFS. While this is a sound approach, a number of lower capital cost alternatives will be evaluated as part of the DFS enhancement process. For the first four years, the mine will operate at 8.8mtpa before increasing to 12.5mtpa as grade declines.

The ore is planned to be processed using conventional mineral sands separation techniques. Ore is transported by an overland conveyor system and divided at the plant run-of-mine (ROM) stockpile into direct plant feed and stockpiled excess. Feed ore is wet screened, deslimed and processed in the primary concentrator spirals circuit to produce heavy mineral concentrate (HMC). Water is reclaimed via a slimes thickener, and recirculated to the process water reservoir. Thickened slimes and sand tailings from the spiral plant are pumped to the residue storage areas.

HMC is withdrawn from the stockpile to feed the first section of the mineral separation plant (MSP), which recovers the ilmenite into a storage shed, and upgrades the remaining mineral by removing further quartz and some gangue heavy mineral. This non-magnetic concentrate is also stored prior to use in downstream MSP sections.

The non-magnetic concentrate is dried, and subject to conventional magnetic and electrostatic separation processes, producing the rutile product and a small additional ilmenite stream. The zircon-rich remaining sand is then processed in a wet gravity separation plant to remove gangue heavy minerals, particularly kyanite. The enriched zircon concentrate is re-dried and finally treated using electrostatic and dry magnetic equipment.

Each product has on-site storage silos, and is hauled 50 kilometres by road tankers to the export facility near Mombasa.

Two separate pilot plant operations have given insight into the processing behaviour of the ore and a sound basis for the design of the flowsheet as well as the proposed slimes handling approach, although a series of improvement opportunities have been identified for further evaluation.

The pilot plant results support the production of a suite of products that are readily saleable with low levels of several of the key deleterious elements, including radio-nuclides. They also support a conclusion that the proposed approach to slimes handling and disposal is valid and should not cause any operational issues.



The project is projected to produce an average of 330ktpa, 80ktpa and 35ktpa of ilmenite, rutile and zircon respectively over the first six years of operation from the higher grade Central dune before declining to average 190ktpa, 55ktpa and 25ktpa over the subsequent five years (**Figure 3**).

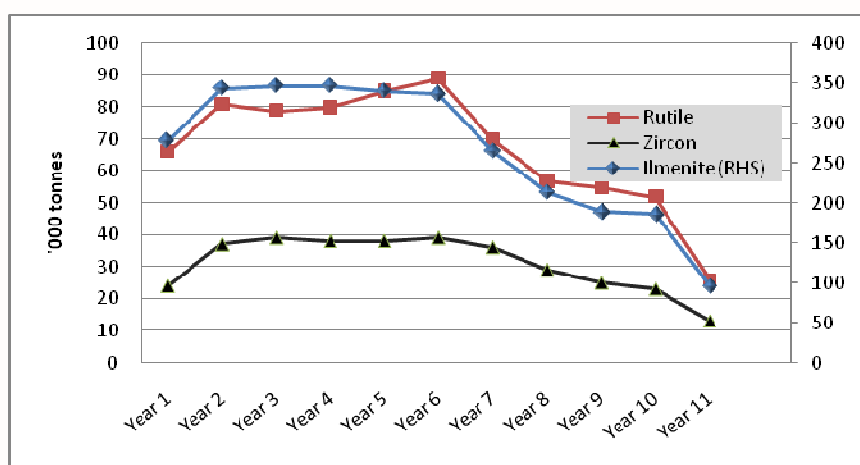


Figure 3 - Projected Annual Production Volumes

Infrastructure

The project is well supported by relatively well developed existing physical infrastructure.

The project site is about 8 kilometres to the west of the main coastal highway connecting to Mombasa. Product will be hauled 50 kilometres along this road to a dedicated port facility to be constructed at Likoni, the existing deep water port servicing the whole of Kenya and Uganda.

Mineral sands projects require substantial quantities of water and power. At Kwale, there is a substantial latent water supply to be accessed via the construction of a dam on the Mukurumudzi River and the development of a borefield on a local aquifer. A 132kva substation has recently been completed 18 kilometres from the project site with sufficient capacity to accommodate the project requirements. The project is also licensed to establish a dedicated power production facility and this formed the basis of the power supply in the DFS.

Forecast Project Economics

Based on the detailed review of the DFS undertaken by Base with TZMI during due diligence, a development capital cost of approximately US\$180 million is projected for the Kwale Project.

Utilising long term product price forecasts supplied by TZMI, the Kwale project is estimated to generate a post-tax cash operating surplus (real) of approximately US\$570 million over 11 years, with US\$400 million of that generated in the first 6 years (**Figure 4**).



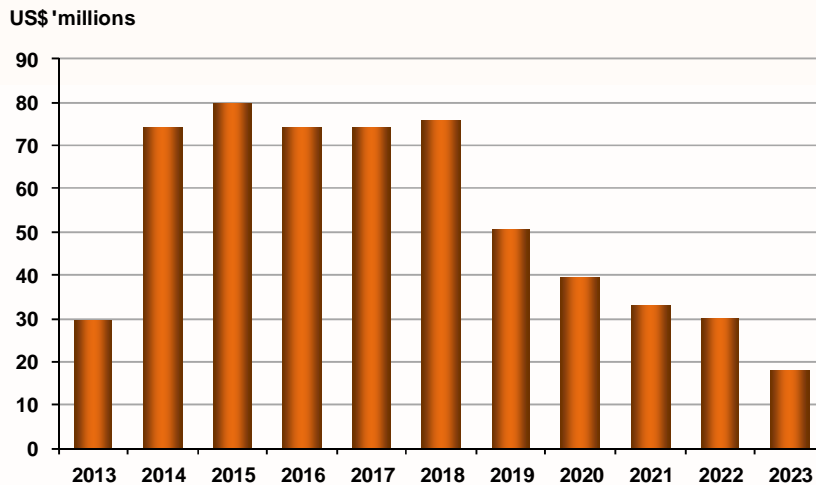


Figure 4 - Forecast Life of Mine Operating Cash Flows

These projected cashflows represent a real post-tax IRR on the US\$180 million capital cost of 28% on an un-gearred basis and an NPV of US\$135 million at a 10% discount rate.

Exploration Projects

Under the terms of the acquisition agreement with Vaaldiam (refer below), Base will also acquire an option to purchase three further exploration projects, Mambriui, Kilifi and Vipingo (“Exploration Projects”). These projects, which are located along the coast to the north of Mombassa, 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”).

These Exploration Projects present a range of significant potential expansion opportunities for further consideration.

Work Program and Development Timing

While the DFS provides a sound basis for the development of the project, a number of issues and opportunities have been identified that will be addressed as part of a value engineering and enhancement exercise over the first 6 to 9 months post-acquisition. This will include a small drilling program to better define lithology, grade and assemblage within the dunes at, in particular, the South dune for mine planning and process design confirmation.

In parallel with this work, discussions will be commenced with potential off-take partners and financiers with a view to securing the requisite funding and commencing development inside the next 12 months.





KENYA AS AN INVESTMENT DESTINATION¹

Kenya has a number of features that make it increasingly attractive for mining investment.

Growing Economy

Kenya is the leading economy in East Africa (GDP 2008 est.: \$30 billion) with well developed business infrastructure attracting a diverse range of international firms who have made the country their regional base. Economic expansion is fairly broad-based and is built on a stable macro-environment fostered by the Government of Kenya. By African standards, Kenya has a substantial and robust private sector. The domestic private sector has been concentrated in food-related manufacturing for both the domestic and regional markets and a significant tourism industry for which it is well known.

Existing Infrastructure

Despite an isolated post-election crisis in 2007, Nairobi continues to be the primary communication and financial centre of East Africa. It enjoys the region's best transportation linkages, communications infrastructure, and trained personnel. Nairobi's Jomo Kenyatta International Airport is the hub of East African air transport, and it has connections to many European and US cities.

Mombassa, the principle seaport of Kenya, serves as a major distribution point for the East African market providing connections to landlocked neighbouring nations. The port of Mombassa is linked to the world's major ports with over 210 sailing per week to Europe, North and South America, Asia, Middle East, Australia and the rest of Africa.

The Trans-Africa Highway connects all the East African countries. The road transport network is extensive and fully developed with roads connecting to the major commercial cities of Nairobi, Mombassa and Dar-es-salam.

Skilled Workforce

Kenya is well recognised for its large pool of well-educated professionals, fluent in English and highly trained in various fields. Kenya holds the distinction of having the highest number of university and college educated English speaking professionals in East Africa.

Developing Mining Sector

At present the mining sector accounts for less than 1% of Kenya's annual GDP and lags significantly behind its neighbours, Tanzania and Uganda, with whom it shares a number of key mineral belts. As a consequence, Kenya is considered to have significant exploration potential. The Government of Kenya, which regards the development of a robust mining industry as a priority, is significantly looking to the Australian mining industry as a model.

¹ **Sources:**

Kenya Investment Authority; United Nations / International Chamber of Commerce: Investment Guide to Kenya
U.S. State Department - Bureau of Public Affairs Information Portal
Mbendi



Pro-Investment Government

The Government of Kenya has undertaken a number of reforms to create an enabling environment for both foreign and domestic investment in line with its Economic Recovery Strategy for Wealth and Employment Creation (2003–2007).

Kenya Vision 2030 is the country's new development blueprint and aims to transform Kenya into a globally competitive and prosperous nation a high quality of life by the year 2030. Three pillars of the strategy are Economic (achieving sustained economic growth of 10% per annum), Social (developing a just and cohesive society enjoying equitable social development) and Political (evolving an issue-based, people centered, result oriented and accountable political culture). The achievement of Vision 2030 is being implemented via a series of detailed five-year plans with a heavy emphasis on the encouragement of investment.

TRANSACTION SUMMARY

Base Iron is to acquire from Vaaldiam:

- The Kwale Project, including all intellectual property, rights and obligations directly associated with the Kwale Project and all other exploration rights in Kenya and Tanzania, excluding the Exploration Projects: and
- A four year option to acquire Tiomin Kenya Limited (the owner of the Exploration Projects). The terms of the option:
 - Permit Base to require Tiomin Kenya to relinquish any or all of the Exploration Projects during the currency of the option;
 - Requires Base to fund the minimum spend commitments on the Exploration Projects; and
 - Ensure that Tiomin Kenya will have net nil financial assets and liabilities at the time of exercise.

The consideration for the acquisition of the Kwale Project and the option is payable as follows:

- US\$3 million in cash on settlement; and
- A 2% royalty on gross product revenue (FOB Mombasa) from the Kwale Central and South deposits.

On exercise of the option, Base will pay US\$1m for each of the three exploration Projects then held by Tiomin Kenya.

With due diligence satisfactorily completed and consent received from the Government of Kenya, The acquisition is now only conditional upon the approval of Base's shareholders and completion of the capital raising.



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Attribution Statement

Information in this announcement that relates to a JORC and NI 43 – 101 compliant mineral resource carried out in 2001 at the Kwale Project is based on information and opinion compiled by Dr Alwyn Annels. Dr Annels is a Fellow of the UK Institute of Materials, Minerals and Mining and is a Competent Person and a Qualified Person for the purposes of the JORC Code and the TSE NI 43-101 respectively. Dr Annels was at that time, an employee of SRK (UK) Limited and consents to the inclusion in the announcement of the information based on his work in the form and context in which it appears on the basis that the resources have not changed since his 2001 information.

SRK has also consented to the publication of this attribution statement on the basis that the resources and modifying factors have not changed since its last review for Lenders in 2006/2007 which used essentially the same resources as were reviewed in 2001.

Forward-Looking Statements

Certain statements made during or in connection with this announcement contain or comprise certain forward-looking statements regarding the capital cost and production and financial performance of the Kwale Project. Although Base believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in metals prices and exchange rates and business and operational risk management. Base undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events.

Corporate Details:

Board of Directors:

Andrew King	Non Executive Chairman
Tim Carstens	Managing Director
Sam Willis	Non Executive Director
Winton Willesee	Non Executive Director/ Company Secretary

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