

Quarterly Activities Report – March 2018

18 April 2018

HIGHLIGHTS

- Strengthening of prices in all products.
- Record zircon sales at 9.9kt.
- Successful commissioning of Kwale Phase 2 optimisation project.
- Commencement of the next phase of exploration drilling at Kwale Operations.
- No lost time injuries.
- Completion of the acquisition of the world-class Toliara Sands Project in Madagascar.
- A\$97 million capital raise completed, providing the funding for the initial US\$75 million purchase consideration for the Toliara Sands Project.
- Net debt further reduced by US\$4.8 million to US\$60.8 million, limited by peak KP2 spend, the Toliara Sands Project acquisition and sales receipt timing.

African mineral sands producer, **Base Resources Limited** (ASX & AIM: BSE) (**Base Resources** or the **Company**) is pleased to provide a quarterly corporate, development and operational update for its Kwale Mineral Sands Operations (**Kwale Operations**) in Kenya. Corporately, completion of the transformational acquisition of the Toliara Sands Project and associated capital raising has allowed project development activities to now commence. Operationally, the focus has been on finalising the Kwale Phase 2 mine optimisation project with commissioning of the expanded wet concentrator plant underway and progressing to plan. On the marketing front, pricing for ilmenite, rutile and zircon have all strengthened during the quarter.

KWALE OPERATIONS

PRODUCTION & SALES	Mar 2017 Quarter	June 2017 Quarter	Sept 2017 Quarter	Dec 2017 Quarter	Mar 2018 Quarter
Production (tonnes)					
Ilmenite	112,368	119,364	119,376	119,209	111,630
Rutile	23,107	22,762	22,789	22,798	21,634
Zircon	8,212	8,375	9,136	9,569	9,166
Zircon low grade ¹	2,474	3,026	1,425	-	-
Sales (tonnes)					
Ilmenite	122,783	142,405	106,260	119,554	140,665
Rutile	21,416	27,779	12,594	25,377	25,526
Zircon	8,069	8,540	9,283	8,144	9,884
Zircon low grade ¹	3,059	3,045	-	3,287	-

At the start of March, a month-long mining and wet concentrator plant (**WCP**) shutdown was initiated on schedule to complete final equipment installation and piping tie-ins for the Kwale Phase 2 (**KP2**) mine optimisation project (see below

¹ Zircon low grade tonnes contained in concentrate, equivalent to approximately 70-80% of the value of primary zircon.

for further detail). As a consequence, mined tonnage for the quarter was significantly lower at 1.9 million tonnes (**Mt**) (from 2.9Mt last quarter). Mined ore grade fell to 6.9% Heavy Mineral (**HM**) (7.6% HM last quarter) as mining proceeds around the north-western fringes of the Central Dune orebody.

Due to the KP2 shutdown and reflecting the ongoing transition to hydraulic mining as the sole mining method, the hydraulic mining unit (**HMU**) tonnes mined reduced marginally from the prior quarter's 1.2Mt to 1.1Mt and dozer mining unit (**DMU**) tonnes mined declined from 1.7Mt to 0.8Mt for the quarter.

MINING & WCP PERFORMANCE	Mar 2017 Quarter	June 2017 Quarter	Sept 2017 Quarter	Dec 2017 Quarter	Mar 2018 Quarter
Ore mined (tonnes)	2,664,738	2,975,694	3,023,550	2,882,529	1,883,159
HM %	6.70	8.40	8.01	7.61	6.88
HMC produced (tonnes)	159,379	232,574	238,580	196,725	125,298

WCP production of heavy mineral concentrate (**HMC**) for the quarter was lower at 125kt (197kt last quarter) and the HMC stockpile was consequently reduced from 132kt to 77kt, with these reductions attributable to the KP2 shutdown. Commissioning of the expanded WCP commenced during the last week of March and HMC production has now returned to pre-shutdown levels.

The tailings storage facility (**TSF**) sand wall stacking, lining and slimes deposition continued according to plan, with the final wall lift nearing completion. During the quarter, sand stacking also commenced in the mined-out area of the Central Dune, representing the start of rehabilitation in this section. Rehabilitation of the TSF outer wall continued during the quarter.

Above average rainfall of 162mm was received during the quarter, resulting in the Mukurumudzi Dam being at 86% of capacity by the end of March, ahead of the 'long rains' wet season between April and June.

MSP PERFORMANCE	Mar 2017 Quarter	June 2017 Quarter	Sept 2017 Quarter	Dec 2017 Quarter	Mar 2018 Quarter
MSP Feed (tonnes of HMC)	186,814	192,432	190,499	190,798	180,128
MSP feed rate (tph)	91	92	91	91	92
MSP recovery %					
Ilmenite	101	101	100	100	101
Rutile	99	98	100	100	99
Zircon	74	73	75	77	78

Mineral separation plant (**MSP**) availability was lower at 91% (95% last quarter) with a total of 180.1kt of HMC processed (190.8kt last quarter). These reductions were due to an extended planned maintenance shutdown of 4 ½ days, timed to coincide with the KP2 WCP shutdown, to refurbish a number of major components in the MSP which had reached the end of their service life.

Production of all finished products was slightly lower than the prior quarter as a result of the lower availability.

Recoveries of ilmenite and rutile were steady whilst ongoing optimisation of the wet and dry zircon circuits resulted in continuing improvements in recovery.

Bulk loading operations at Base Resources' Likoni Port facility continued to run smoothly, dispatching more than 162kt of ilmenite and rutile during the quarter (142kt last quarter). Containerised shipments of rutile and zircon through the Mombasa Port proceeded according to plan.

SUMMARY OF UNIT COSTS & REVENUE PER TONNE (US\$)	Mar 2017 Quarter	June 2017 Quarter	Sept 2017 Quarter	Dec 2017 Quarter	Mar 2018 Quarter
Unit operating costs per tonne produced	\$87	\$96	\$90	\$92	\$98
Unit cost of goods sold per tonne sold	\$111	\$103	\$107*	\$120*	\$114
Unit revenue per tonne of product sold	\$258	\$297	\$285*	\$344*	\$314
Revenue:Cost of goods sold ratio	2.3	2.9	2.7	2.9	2.8

*Reported unit cost of sales and revenue per tonne has been restated from that previously reported due to an error in tonnes used.

Total operating costs were consistent with the prior quarter. However, the lower total production volume explained above resulted in a higher unit operating cost of US\$98 per tonne produced (rutile, ilmenite, zircon) (US\$92 per tonne last quarter). Cost of goods sold of US\$114 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) was lower than last quarter due to product sales mix and the associated cost allocation.

Revenue per tonne of product sold varies significantly each quarter, with the number of bulk rutile sales during that quarter being the primary factor. In a normal year, there are usually seven or eight bulk rutile sales of approximately 10kt each, which means any given quarter will typically contain either one or two of these sales. As annual rutile sales account for approximately 40% of revenue but only 15% of volume, the number of bulk rutile sales in a quarter has a significant bearing on revenue, but not sales volume. The March quarter saw two bulk rutile sales taking total rutile sales to 25.5kt, in line with last quarter's 25.4kt total rutile sales. Despite higher rutile and zircon prices, and higher zircon sales volumes, the significantly higher ilmenite sales volume this quarter has resulted in the average revenue per tonne decreasing to US\$314 per tonne (US\$344 last quarter).

KWALE PHASE 2 MINE OPTIMISATION PROJECT

To counter declining ore grades expected from late 2018 onwards, and to fully exploit the availability of MSP capacity, the Board approved, in May 2017, implementation of the KP2 Project (refer to the announcement on 23rd May 2017²).

The KP2 Project aims to maximise HMC feed to the MSP for the remaining life of mine, by increasing mining rates as ore grade declines. This is being achieved through increasing the hydraulic mining capacity to three 800tph HMUs, while gradually phasing out the existing DMU. The WCP and water supply infrastructure are being upgraded in parallel to accommodate the higher mining rates.

Pre-shutdown construction activity peaked during the quarter and, on schedule on the 1st March, both the mine and the WCP were stopped for one month to allow completion of final equipment and piping installations and tie-ins to existing plant infrastructure. Recommissioning commenced in the last week of March, with production of HMC recommencing during the second week of April and has now ramped up to pre-shut levels with all facilities performing to expectations. The implementation schedule will see the second and third 800tph HMUs commissioned in the June quarter of 2018. The three HMUs will ramp up to full capacity through the course of 2018, with the DMU gradually phased out over the same period.

The KP2 Project execution remains in line with the approved expenditure budget.

Engineering and design work for the transition of mining from the Central Dune to the South Dune will commence in mid-2018, with construction completion scheduled for the second half of 2019.

² Refer to Base Resources' market announcement "Board approves Kwale Phase 2 mine optimisation project to deliver enhanced economics" released on 23rd May 2017, which is available at <http://www.baseresources.com.au/investor-centre/asx-releases>.



KP2 works to extend the wet concentrator plant, increasing capacity by 70%

FY2018 PRODUCTION GUIDANCE

Kwale Operations production guidance for financial year 2018 (**FY2018**) remains unchanged at:

- Rutile – 88,000 to 94,000 tonnes.
- Ilmenite – 450,000 to 480,000 tonnes.
- Zircon – 35,000 to 40,000 tonnes.
- Zircon contained in zircon low grade – 1,425 tonnes³.

The above production guidance is based on the following assumptions for FY2018:

- Mining of 10.9Mt (previously 10.6Mt) at an average HM grade of 7.28%, with mining for the remainder of FY2018 all from Ore Reserves⁴.
- MSP feed rate at an average of 91tph, consistent with recent performance.
- MSP product recoveries of 100% for ilmenite and 100% for rutile, and 77% for zircon, consistent with recent performance.

³ No further production of zircon low grade is anticipated for FY2018.

⁴ The Ore Reserves estimates underpinning the above production targets were prepared by Competent Persons in accordance with the JORC Code (2012 edition). The above production targets are the result of detailed studies based on the actual performance of the Kwale mine and processing plant. These studies include the assessment of mining, metallurgical, ore processing, environmental and economic factors.



MARKETING

Strength in the global TiO₂ pigment industry continued through the traditionally seasonally weak March quarter. Ongoing high plant utilisation rates and low inventory levels among major western pigment producers are maintaining a strong pigment pricing environment. Restrictions in Chinese pigment production, caused by government environmental inspections and a winter gas shortage, have helped underpin pigment prices through the usual seasonal slowdown in pigment demand. Pigment prices from western and Chinese producers have increased through the latter part of the March quarter as demand began to accelerate in the lead up to the northern hemisphere 'painting season'.

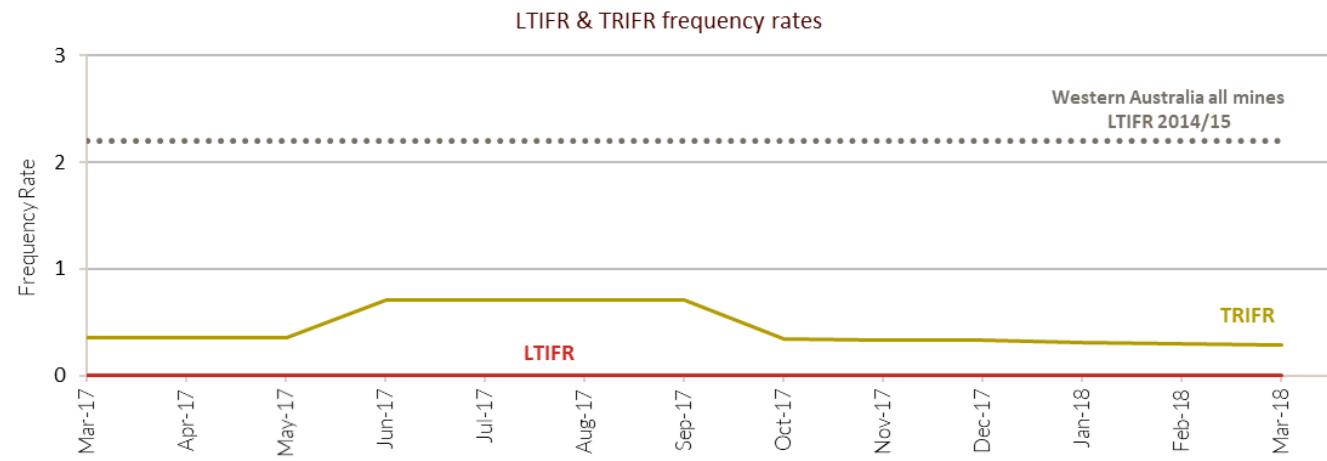
The lead up to the seasonally strong June quarter, together with the removal of environmental restrictions on many pigment producers in China, resulted in increasing demand and improved pricing for ilmenite in China in the latter part of the March quarter. Chinese domestic ilmenite production was flat through the March quarter and imports from Vietnam and India have continued to be restrained due to political and market factors. In the absence of any new environmental restrictions placed on major pigment producers in China, or an unexpected significant increase in supply, ilmenite prices are likely to trend upwards through the June quarter.

A supply deficit in the high-grade feedstock sector (which includes rutile), driven mostly by the strength in the western chloride pigment sector, has significantly tightened the market in recent quarters. This has translated into significant price gains in the early part of 2018 for bulk rutile and chloride slag sales to large mainstream customers.

Zircon demand continued to be strong through the March quarter with volumes requested by customers remaining well above the Company's capacity to supply. Indications of ongoing tight supply from major zircon sources through 2018 have supported further substantial zircon price increases. In line with the major zircon suppliers, Base Resources has again secured significant price gains on zircon contracts for the June quarter. Concerns from zircon producers over the potential for substitution or thrifting of zircon by customers may begin to restrain the extent and/or frequency of price increases going forward.

SAFETY

With no serious injuries occurring during the quarter, Kwale Operations' lost time injury frequency rate (**LTIFR**) remains at zero. Base Resources' employees and contractors have now worked 12.1 million man-hours LTI free, with the last LTI recorded in the March quarter of 2014. With only one minor injury occurring in the past 12 months, the total recordable injury frequency rate (**TRIFR**) has fallen to 0.29 per 1 million man-hours worked.



COMMUNITY AND ENVIRONMENT

Agricultural livelihood programs, run in conjunction with partners Business for Development, DEG, FMO, Australia's DFAT and Kenya Red Cross, continue to develop with encouraging support from both national and county Kenyan governments. These programs, covering cotton, potato, sorghum, legumes, bee keeping and poultry, are expanding to involve around 2,500 smallholder farmers and community groups in the next planting season commencing in the June quarter.

Sorghum harvest and commercial sales continue with a large local brewing company and a solid relationship is developing between the farmers' cooperative and the brewer. Planning for the next planting season is already underway with additional farmers signed up.

Cotton from the 2017 crop has been ginned and is ready for export to Bangladesh for further processing into garments for multinational clothing retailer, Cotton On. Preparations for the next season commencing in May are underway with ploughing and soil testing completed by the cooperative and soil inputs and seed procurement ongoing.

In February, the Kwale Cotton project was the recipient of a New Vision for Development award from the World Economic Forum, recognising innovative approaches to sustainable development.

The Company's scholarship program in Kenya has reached another milestone with just over 1,500 students benefiting from awards for secondary and tertiary education providing much needed support for bright students from disadvantaged backgrounds to continue their studies.

BUSINESS DEVELOPMENT

TOLIARA SANDS PROJECT ACQUISITION

On 23 January 2018⁵, Base Resources completed the acquisition of the Toliara Sands Project in Madagascar.

Following payment of the US\$75 million up-front consideration by Base Resources, the initial 85% interest in, and control of, the wholly owned Mauritian subsidiaries of World Titane Holdings Ltd, which between them hold a 100% interest in the Toliara Sands Project in Madagascar (held through wholly owned subsidiaries in Madagascar) has now been transferred to the Company. Base Resources will acquire the remaining 15% interest, with a further US\$17 million payable on achievement of key milestones as the project advances to mine development.

The Toliara Sands Project is considered by Base Resources to be one of the best mineral sands development projects in the world. It is underpinned by the Ranobe deposit which has a JORC 2012 Mineral Resource of 857Mt at 6.2% heavy mineral, including 612Mt at 6.7% heavy mineral in the Measured and Indicated Categories.⁶

The acquisition was funded by a A\$97 million share offer which completed on 22 January 2018, refer below for further details.

⁵ Refer to Base Resources' market announcement "Toliara Sands Project acquisition completed" released on 23 January 2018, which is available at <http://www.baseresources.com.au/investor-centre/asx-releases>.

⁶ Refer to Base Resources' market announcement "Investor Presentation - Acquisition and Entitlement Offer" released on 19 December 2017, which is available at <http://www.baseresources.com.au/investor-centre/asx-releases>, which contains the JORC competent persons statement for this estimate of Mineral Resource. The Company confirms that it is not aware of any new information or data that materially affects the information included in that announcement and that all material assumptions and technical parameters underpinning the Mineral Resource estimates in that announcement continue to apply and have not materially changed.

TOLIARA SANDS PROJECT DEVELOPMENT

Building on the sound work completed to date, Base Resources' development plan is to complete a full study phase ahead of a decision to proceed to construction in the second half of calendar year 2019 (**H2 CY19**). This timetable could be expected to see the Toliara Sands Project in production in H2 CY21.

During the quarter, following acquisition completion, a high-level concept study to identify and assess various enhancement options was commenced, with a screened short list to be taken forward for evaluation during the prefeasibility study (**PFS**). The concept study is scheduled to be completed, and the PFS commenced, in the June quarter.

The selection process to appoint an engineering consultant to lead the PFS and definitive feasibility study (**DFS**) for the Toliara Sands Project was initiated during the quarter. Tender submissions have been received from a panel of engineering consultants and contract award is targeted for the June quarter.

Stage 1 of the PFS aims to select the preferred development option by Q3 CY18, with the final PFS targeted for completion in Q1 CY19. DFS completion is expected in Q3 CY19.

A number of long lead activities commenced during the quarter which will feed into the PFS and the DFS, including:

- Excavation of a 100-tonne bulk sample which is currently in transit to Australia for a full program of wet and dry plant testwork, which will inform process flow sheet design.
- Mobilisation of a drill rig to site, with drilling expected to commence in the June quarter. The drill program aims to define the boundaries of the Mineral Resource, upgrade the existing Inferred Resource to Indicated status, and complete an Ore Reserve estimation.

Total expenditure on the Toliara Sands Project for the quarter was US\$1.0 million.

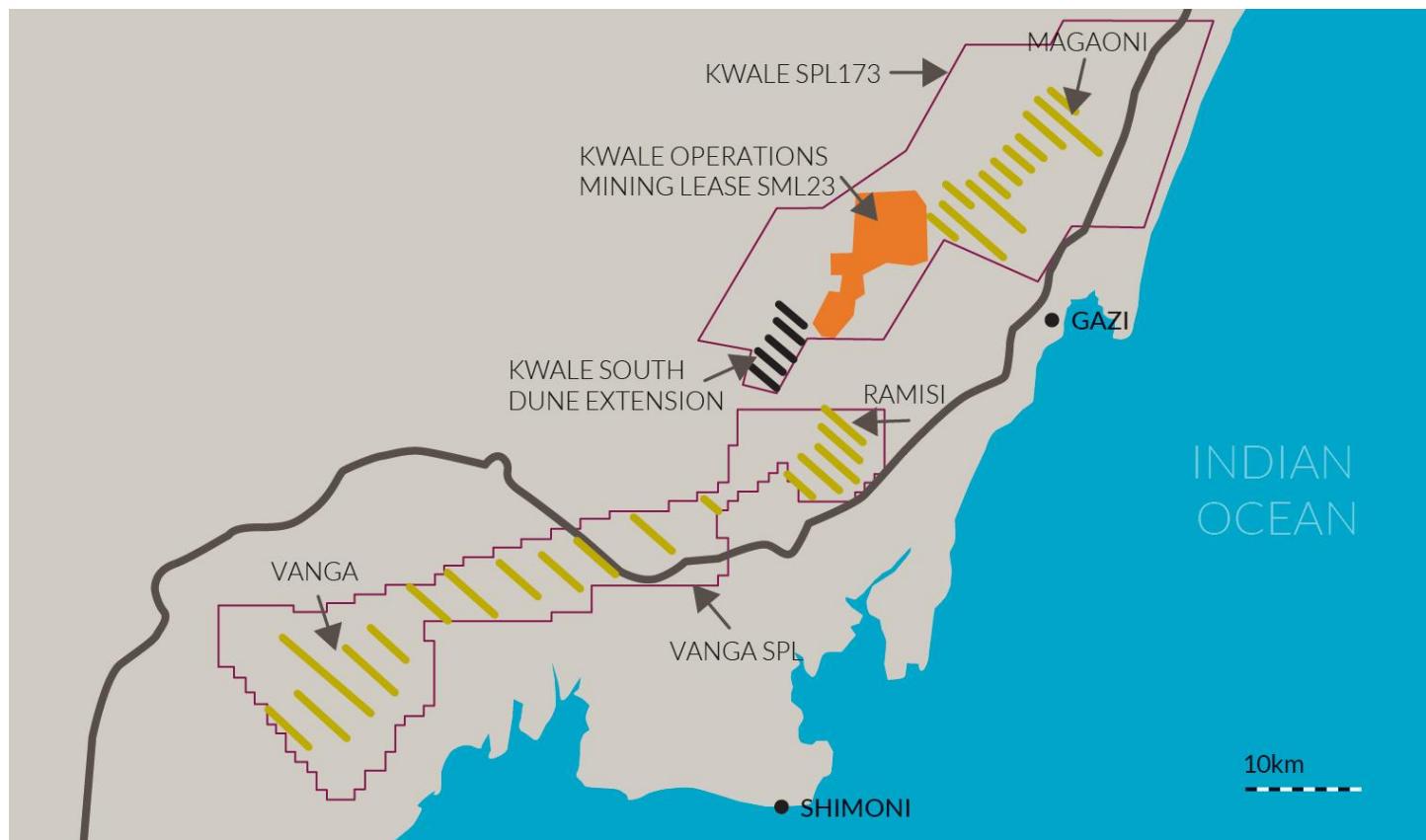
EXTENSIONAL EXPLORATION - KENYA

As announced on 4th October 2017⁷, an updated Mineral Resource estimate for the Kwale South Dune (the **2017 Kwale South Dune Mineral Resource**) was completed, resulting in a 19% increase in contained in situ HM in the Measured and Indicated categories. Completion of an updated Ore Reserve based on the 2017 Kwale South Dune Mineral Resource is subject to finalisation of mining tenure arrangements with the Kenyan Ministry of Mines.

The next phase of extensional exploration drilling at Kwale Operations commenced in early April in the North-East Sector of the Company's Kwale Special Prospecting License (**SPL**) 173, adjacent to the Kwale Operations Central Dune.

The Company's Vanga SPL application has been approved by the Mineral Rights Board and is awaiting issuance. Once issued, the current drilling program will be extended to incorporate this SPL.

⁷ Refer to Base Resources market announcement "Mineral Resource Increase for Kwale South Dune" released on 4 October 2017, which is available at <http://www.baseresources.com.au/investor-centre/asx-releases>, which contains the JORC competent persons statement for this estimate of Mineral Resource. The Company confirms that it is not aware of any new information or data that materially affects the information included in this ASX announcement and that all material assumptions and technical parameters underpinning the Mineral Resource estimates in this announcement continue to apply and have not materially changed.



EXPLORATION - TANZANIA

The Company holds five prospecting licences in northern Tanzania with a combined area of 475km². A stratigraphic drilling program across all five licences was completed during the quarter to enhance our understanding of the area's geology, marine sequences and potential to host heavy mineral. Drill samples have been delivered to the Kwale Operations laboratory for analysis and results are expected to be available over the course of the next few months. These drill results will inform the Company's future exploration strategy in Tanzania.

Total exploration expenditure for the quarter, across all licences in Kenya and Tanzania, was US\$177,000.

CORPORATE

COMPLETION OF SHARE OFFER TO FUND ACQUISITION OF TOLIARA SANDS PROJECT

On 19 December 2017⁵, Base Resources launched a partially underwritten combined share placement to institutional investors and a 1 for 3 accelerated pro rata renounceable entitlements offer (**Offer**) at a price of A\$0.255 per share to fund the US\$75 million initial consideration for the acquisition of the Toliara Sands Project.

The institutional placement and the institutional component of the Offer were successfully completed on 5 January 2018, raising gross proceeds of approximately A\$89.3 million from the issue of 350,074,625 new fully paid new shares at A\$0.255 per share. The retail component of the Offer was completed on 22 January 2018, raising gross proceeds of approximately A\$7.7 million from the issue of 30,306,450 new fully paid new shares at A\$0.255 per share.

CORPORATE REVOLVING CREDIT FACILITY EXTENDED

During the quarter, the Company's existing US\$25 million revolving credit facility (RCF) was extended by a further US\$5 million to US\$30 million, as permitted by the facility terms, to provide Base Resources with additional funding flexibility. All other facility terms remain unchanged.

NET DEBT REDUCTION

During the quarter, the Company's net debt reduced by US\$4.8 million to US\$60.8 million. The net debt reduction was lower than the prior quarter's US\$21.0 million, despite higher sales and similar operating costs, due to several factors, primarily:

- Increased KP2 project expenditure of US\$10.8 million (US\$9.1 million last quarter).
- an increase in working capital (principally debtors due to timing of sales) of US\$9.3 million (US\$2.2 million reduction last quarter).
- Toliar Sands Project acquisition transaction costs of US\$3.3 million and project development costs of US\$1.0 million were incurred during the quarter.

NEW BOARD APPOINTMENT

On 1 February 2018, Diane Radley was appointed to the Board of Base Resources as an independent non-executive director, bringing significant and diverse African, business leadership, strategy and financing experience to the Company.

Diane has an exceptional pedigree in African business having most recently served as CEO of Old Mutual Investment Group, Africa's largest asset manager. Prior to this, she was Chief Financial Officer with both Old Mutual South Africa and Allied Electronics Corporation, and Partner-in-charge of the Transaction Services Group in the Johannesburg office of PricewaterhouseCoopers. In 2015, she was recognised as "Africa's Leading Woman in Business" by African Investor (New York).

KENYAN VAT RECEIVABLE

As previously announced, Base Resources has refund claims for VAT paid in Kenya, relating to both the construction of the Kwale Project and the period since operations commenced, totalling approximately US\$20.8 million at 31 March 2018. These claims are proceeding through the Kenya Revenue Authority process, although no refunds were received during the quarter (US\$4.4 million last quarter). Base Resources is continuing to engage with the Kenyan Treasury and the Kenya Revenue Authority, seeking to expedite the remainder of the refunds.

In summary, at 31 March 2018:

- Net debt of US\$60.8 million, consisting of:
 - Cash and cash equivalents were US\$27.3 million (unrestricted) and an additional US\$30.9 million (restricted – debt service reserve account).
 - Debt of US\$119.1 million (Kwale Project Debt Facility US\$106.6 million and Corporate RCF US\$12.5 million).
- 1,127,575,014 shares on issue.
- 61,425,061 options (exercise price of A\$0.40, expiring 31 December 2018).
- 71,281,661 performance rights issued pursuant to the terms of the Base Resources Long Term Incentive Plan.

ENDS.

CORPORATE PROFILE

Base Resources Limited ABN 88 125 546 910

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Tim Carstens Managing Director
Colin Bwye Executive Director

Sam Willis Non-Executive Director
Michael Stirzaker Non-Executive Director
Malcolm Macpherson Non-Executive Director
Diane Radley Non-Executive Director

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