

Quarterly Activities Report – June 2020

Key points

- Kwale Operations has maintained operational consistency throughout the quarter with health and safety protocols in place to minimise the risk of COVID-19 to personnel and surrounding communities.
- FY20 production achieved at the higher end of guidance ranges.
- Production guidance provided for FY21.
- Ongoing firm demand from customers in the quarter supported further upward movement in ilmenite prices, while rutile and zircon prices remained steady.
- Kwale South Dune Mineral Resources and Ore Reserves updated to reflect depletion due to mining as well as the lower ore density experienced since commencing mining on the South Dune deposit.
- Toliara Project front-end engineering design, lender due diligence and discussions with the Government of Madagascar progressed within the constraints of the country's, and wider, COVID-19 responses.
- Activities to support vulnerable local communities affected by COVID-19 in Kenya and Madagascar continued including the donation of food, medical and hygiene supplies.
- With net cash of US\$87.6 million at 30 June, the company is in a robust financial position.

African mineral sands producer, **Base Resources Limited** (ASX & AIM: BSE) (**Base Resources** or the **Company**) is pleased to provide a quarterly operational, development and corporate update.

Supported by firm customer demand, production at the Company's Kwale Mineral Sands Operations (**Kwale Operations**) in Kenya has continued uninterrupted.

Discussions with the Government of Madagascar on fiscal terms, and the lifting of the suspension of on-the-ground activities, for the Toliara Project continued within the constraints of the Government's response to the ongoing COVID-19 pandemic. Other activities to progress the project, such as front-end engineering design and lender due diligence, continued in the quarter.

COVID-19 UPDATE

Base Resources continues to closely monitor the COVID-19 pandemic and its impacts on the Company's business, people and other stakeholders. Kwale Operations continues to operate under a suite of mitigations aimed at protecting the health and safety of our employees and neighbouring communities, including substantially modified workplace practices, with a reduced on-site workforce and a focus on hygiene and social distancing measures to minimise the risk of COVID-19 transmission. However, balancing the considerations of employee and community health, operational safety, community benefits, government policy, customer demand and financial prudence, a halt to, or curtailment of, operations at some point in the future remains possible if circumstances change.

The Company is also working with Kenyan national and local authorities to ensure compliance with Government COVID-19 reduction measures as well as assisting governments and communities in both Kenya and Madagascar with several initiatives, primarily involving the construction of hygiene facilities, distribution of food and provision of medical supplies and equipment.

KWALE OPERATIONS

| Production & Sales | June 2019 Quarter | Sept 2019 Quarter | Dec 2019 Quarter | Mar 2020 Quarter | June 2020 Quarter |
|-------------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|
| Production (tonnes) | | | | | |
| Ilmenite | 88,789 | 73,808 | 91,406 | 105,035 | 84,843 |
| Rutile | 22,588 | 16,390 | 19,812 | 23,683 | 19,035 |
| Zircon | 7,063 | 6,980 | 7,923 | 9,163 | 7,590 |
| Zircon low grade | 347 | 466 | 546 | 780 | 578 |
| Sales (tonnes) | | | | | |
| Ilmenite | 99,620 | 60,109 | 106,544 | 87,819 | 102,364 |
| Rutile | 31,889 | 14,018 | 13,078 | 25,280 | 27,268 |
| Zircon | 7,968 | 6,713 | 7,090 | 7,377 | 9,086 |
| Zircon low grade ¹ | 219 | 839 | 616 | - | 1,516 |

Mining operations continued steadily on the South Dune orebody with mined tonnage of 4.3Mt at a grade of 3.9% heavy mineral (HM), both in line with the previous quarter.

Subsequent to the quarter end, an update to the Kwale South Dune Mineral Resources and Ore Reserves was released reflecting a 5% reduction in estimated material bulk density, a reduction in the size of the prospecting licence omitting some low grade material, sterilisation of sub-economic material and depletion due to mining². The change to estimated material bulk density is a result of routine reconciliations between the resource model estimates and run-of-mine operating data gained since mining commenced on the South Dune in July 2019.

| Mining & WCP Performance | June 2019 Quarter | Sept 2019 Quarter | Dec 2019 Quarter | Mar 2020 Quarter | June 2020 Quarter |
|--------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|
| Ore mined (tonnes) | 3,644,160 | 4,909,999 | 4,579,386 | 4,295,645 | 4,271,811 |
| HM % | 3.52 | 2.66 | 4.22 | 3.86 | 3.87 |
| HMC produced (tonnes) | 131,475 | 114,149 | 189,952 | 153,754 | 148,699 |

Wet concentrator plant (WCP) production of heavy mineral concentrate (HMC) was marginally lower at 149kt (last quarter: 154kt). HMC stocks increased slightly to 16kt at quarter end (last quarter: 13kt). Sand tails continued to be deposited into the mined-out Central Dune area and rehabilitation work on the Central Dune and the mined-out areas of the South Dune also continued.

| MSP Performance | June 2019 Quarter | Sept 2019 Quarter | Dec 2019 Quarter | Mar 2020 Quarter | June 2020 Quarter |
|--------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|
| MSP Feed (tonnes of HMC) | 160,766 | 121,600 | 155,217 | 186,197 | 145,550 |
| MSP feed rate (tph) | 76 | 67 | 86 | 90 | 78 |
| MSP recovery % | | | | | |
| Ilmenite | 100 | 103 | 100 | 99 | 99 |
| Rutile | 104 | 103 | 102 | 99 | 100 |
| Zircon | 76 | 86 | 88 | 87 | 85 |

¹ Reported as tonnes of zircon contained in concentrate, it realises 90% to 100% of the value of the equivalent volume of standard grade zircon, due to rutile credits.

² Refer to Base Resources' market announcement "Updated Kwale South Dune Mineral Resources and Ore Reserves estimate" released on 27 July 2020, which is available at <https://baseresources.com.au/investors/announcements/>.

Total mineral separation plant (MSP) feed tonnage was lower than the prior quarter, constrained by HMC production and low inventories. Recoveries were slightly higher than the previous quarter except for zircon.

Bulk loading operations at the Company's Likoni Port facility continued to run smoothly, dispatching more than 125kt of bulk ilmenite and rutile during the quarter (last quarter: 110kt). Containerised shipments of rutile and zircon through the Mombasa Port proceeded according to plan.

| Summary of unit costs & Revenue per tonne (US\$) | June 2019 Quarter | Sept 2019 Quarter | Dec 2019 Quarter | Mar 2020 Quarter | June 2020 Quarter |
|---|----------------------|----------------------|---------------------|---------------------|----------------------|
| Unit operating costs per tonne produced | \$127 | \$173 | \$140 | \$128 | \$153 |
| Unit cost of goods sold per tonne sold | \$180 | \$213 | \$141 | \$175 | \$189 |
| Unit revenue per tonne of product sold | \$482 | \$469 | \$355 | \$476 | \$479 |
| Revenue: Cost of goods sold ratio | 2.7 | 2.2 | 2.5 | 2.7 | 2.5 |

Total operating costs of US\$17.2 million were marginally lower (last quarter: US\$17.7 million) due to lower processing costs and rehabilitation provision charges. Despite the lower total operating costs, the reduced production levels resulted in higher unit operating costs of US\$153 per tonne produced (rutile, ilmenite, zircon, and low-grade zircon) (last quarter: US\$128 per tonne).

Unit cost of goods sold is influenced by both the underlying operating costs and product sales mix. Operating costs are allocated to each product based on revenue contribution, which sees the higher value rutile and zircon products attracting a higher cost per tonne than the lower value ilmenite. Therefore, the greater the sales volume of rutile and zircon relative to ilmenite in a quarter, the higher both unit revenue per tonne and unit cost of goods sold will be.

Ilmenite, and most of the rutile, is sold in bulk, with typical shipment sizes of 50-54kt for ilmenite and 10-12kt for rutile, which means any given quarter will usually contain either one or two bulk rutile and ilmenite sales. Zircon is sold in smaller parcels and sales generally align with production volume. Product sales mix will therefore vary depending on the number of bulk shipments of ilmenite and rutile in each quarter.

Cost of goods sold of US\$189 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) was higher due to increased unit operating costs (last quarter: US\$175 per tonne). The proportion of rutile and zircon sold in the quarter was in line with the prior quarter, as were product prices, resulting in the average revenue per tonne of US\$479 per tonne remaining steady (prior quarter: US\$476 per tonne). From the combination of these factors, the revenue to cost of goods sold ratio for the quarter decreased to 2.5 (last quarter: 2.7).

| Production Guidance (tonnes) | FY20 Guidance Range | FY20 Actual | FY21 Guidance Range |
|------------------------------|------------------------|----------------|------------------------|
| Rutile | 75,000 to 81,000 | 78,920 | 70,000 to 80,000 |
| Ilmenite | 335,000 to 355,000 | 355,093 | 270,000 to 300,000 |
| Zircon | 29,000 to 32,000 | 31,657 | 23,000 to 27,000 |

Total Kwale Operations production for the 2020 financial year (FY20) was within the provided guidance range. The FY21 production guidance stated above is based on the following assumptions:

- Mining of 17.2Mt at an average HM grade of 3.24%, with all FY21 volume coming from Ore Reserves³. The forecast volume mined in FY21 is 5% lower when compared to the 18.1Mt achieved (at 3.63% HM) in FY20 due to downtime and reduced production associated with the relocation of the mine collection hopper (which consolidates individual mining unit feed prior to pumping to the WCP) in July 2020 and slightly lower forecast average mining rates.

³ The Ore Reserves estimate underpinning the above production guidance was prepared by Competent Persons in accordance with the JORC Code (2012 edition). For further information regarding the Ore Reserves estimate refer to Base Resources' announcement on 27 July 2020 "Updated Kwale South Dune Mineral Resources and Ore Reserves estimate" available at <https://baseresources.com.au/investors/announcements/>. The above production guidance is 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.

- Average MSP feed rate of 66tph constrained by HMC production and low inventories.
- Average MSP product recoveries of 100.5% for rutile, 100% for ilmenite and 84% for zircon.

MARKETING

Despite global uncertainty created by the COVID-19 pandemic, demand for all products remained firm during the quarter.

Global pigment producers have generally indicated that demand for pigment held up during the early part of the June quarter, but began to decline through May and June as the impact from COVID-19 related shutdowns in various regions started to take effect. However, the decline in pigment demand appears to have been less than initially anticipated – likely due to some pigment sectors (e.g. plastics and DIY paint and other coatings) performing better than expected. This resulted in pigment production levels exceeding expectations for most of the quarter and sustained firm demand for pigment feedstock through the quarter and led to continued tight markets for sulphate ilmenite and high-grade chloride feedstocks (including rutile) supporting ilmenite and rutile prices.

In China, while a number of smaller pigment producers have curtailed production, the large pigment producers have maintained production which has sustained demand for our ilmenite through the June quarter. Global pigment producers have indicated they started to wind back production at the end of the June quarter and into the beginning of the September quarter.

While rutile supply remains constrained, a decrease in demand from pigment and other minor end use sectors is expected to put pressure on prices through the remainder of calendar year 2020. The Company has sales contracts in place for most of its forecast rutile production for the remainder of calendar year 2020.

Despite the uncertain outlook for pigment demand, Chinese pigment producers (the Company's main ilmenite customers) have again re-confirmed their demand for ilmenite and their intention to proceed with planned shipments over the remainder of calendar year 2020. Chinese domestic pigment demand has been recovering since shutdowns in February 2020 and has partially off-set a decline in export demand. The COVID-19 related shutdowns of ilmenite production in China and India through the March and June quarters further exacerbated the global ilmenite shortage. The market for ilmenite remains tight in the early stages of the September quarter.

Subdued demand for zircon continued through the quarter is in line with expectations. However, COVID-19 related suspensions of mining activity in South Africa, combined with some major zircon producers reducing supply to meet market conditions, has led to a relatively balanced market and prices have remained stable.

The Company was fully sold on zircon production for the quarter at prices reasonably consistent with March quarter contracts. Sales contracts have now been secured for all zircon production in the September quarter at prices consistent with the June quarter. Demand for zircon end products remains uncertain over the coming months, but it is expected that adjustments to supply from major zircon producers will continue to provide some stability to market prices.

SAFETY

There were no lost time injuries during the quarter or in the past year, at Kwale Operations' or the Toliara Project, resulting in a lost time injury frequency rate (**LTIFR**) for the group of zero. Compared to the Western Australian All Mines 2018/2019 LTIFR of 2.2, this is an exceptional performance reflective of the ongoing focus and importance placed on safety by management. Base Resources' employees and contractors have now worked 20.9 million man-hours lost time injury (**LTI**) free, with the last LTI recorded in early 2014. One medical treatment injury was recorded during the quarter when an employee required stitches after cutting their hand. As a result, Base Resources total recordable injury frequency rate (**TRIFR**) is 0.24 per million hours worked.

As reported in the Company's December 2019 quarterly⁴, in January 2020, an incident with Kwale Operations haulage contractor tragically resulted in a fatal injury to another road user on a public road. The safety of Base Resources' activities for its people and the communities in which it operates is a fundamental commitment for the Company and the incident was addressed at the highest level. Consistent with the findings of the internal investigation into this incident, a number of changes have been implemented to further improve oversight of maintenance and safety practices across all contractors.

⁴ Refer to Base Resources' market announcement "Quarterly Activities Report – December 2019" released on 23 January 2020, which is available at <https://baseresources.com.au/investors/announcements/>.

COMMUNITY AND ENVIRONMENT

Kwale Operations

Base Resources has continued to assist the Kwale community manage the COVID-19 pandemic, including collaborating with county and national health authorities to train community health workers on COVID-19 awareness programs and providing additional community-based handwashing equipment to help improve sanitation. Food support programs continued, in conjunction with local and national authorities, to cater for the economic impact on tourism and unemployment in the Kwale region. On a national level, during the quarter the Company donated 100 high flow oxygen ventilators to the Kenyan Ministry of Health for deployment within the Kenyan health system. Base Resources was recognised by President Kenyatta with a Madaraka (Independence) Day national award for the Company's contribution to the fight against COVID-19.

Agricultural livelihood programs at Kwale made progress despite restrictions on gatherings and meetings. Work resumed on PAVI's processing facilities to prepare for the 2020 planting season which has recently commenced with good rains supporting promising yields for maize, sorghum, cotton, green grams, various spices and sunflower. Measures have been put in place to continue to progress these activities in compliance with ongoing government restrictions implemented as a result of the COVID-19 pandemic.

Land rehabilitation activities increased significantly on the mine site with the continued support of community groups supplying indigenous legumes and grass seed. Revegetation is undertaken with the collaboration of youth groups from neighbouring villages ensuring local communities are fully involved in the process, achieving the best outcomes.

Toliara Project

All community training programs and social infrastructure construction remained on hold with the government's suspension of on-the-ground activities on the Toliara Project. The 24 Malagasy apprentices training in Kenya at Kwale Operations have remained on site and are subject to restricted movements consistent with government requirements and Company protocols addressing COVID-19 risks.

Base Resources continues to work with local authorities to assist in the response to public health challenges in the Toliara region by providing support for food distribution in conjunction with local groups through the regional government's COVID-19 response committee. This has also included the provision of hygiene facilities and personal protective equipment and, together with a leading local women's group, establishment of a face-mask manufacturing facility in Toliara with completed masks being donated to the community.

BUSINESS DEVELOPMENT

Toliara Project development - Madagascar

In November 2019, the Government of Madagascar required the Company to temporarily suspend on-the-ground activity on the Toliara Project while discussions on fiscal terms applying to the project were progressed⁵. Activity remains suspended as Base Resources continues to engage the Government in relation to the fiscal terms applicable to the Toliara Project. Discussions have been limited as the Government focuses on managing the COVID-19 pandemic.

As noted in the March 2020 quarterly, with the effective shutdown of Government, international travel restrictions and broader COVID-19 measures and impacts both in Madagascar and globally, a final investment decision (FID) to proceed with the development of the Toliara Project will be delayed beyond the September 2020 target date that had been contemplated in the definitive feasibility study released in December 2019⁶. Further guidance on a revised FID date for the Toliara Project will be provided when there is greater clarity on the trajectory of resumption of global economic activity.

⁵ Refer to Base Resources' market announcement "Toliara Project – Government of Madagascar statement" released on 7 November 2019, which is available at <https://baseresources.com.au/investors/announcements/>.

⁶ Refer to Base Resources' market announcement "DFS reinforces Toliara Project's status as a world class mineral sands development" released on 12 December 2019, which is available at <https://baseresources.com.au/investors/announcements/>.

Key activities during the quarter included:

- Continued positive engagement with the Government in relation to fiscal terms and resumption of activity that has now seen encouragement for the Company to lodge an application under Large Mining Investment Law (**LGIM**) as the mechanism that will provide stability of fiscal terms.
- Preparation of the LGIM application.
- Resource, schedule and budget planning in light of the delays caused by the COVID-19 pandemic.
- Progression of prospective lender due diligence.
- Progression of meaningful front-end engineering design (**FEED**) activities.
- Continued negotiations with preferred tenderers, ensuring tender validity extensions for the river bridge, marine, piling and power contract packages.

Key activities planned for the coming quarter include:

- Translation and submission of the LGIM application to the Government.
- Continuation of discussions with prospective lenders and equity partners.
- Progression of meaningful FEED activities to a logical point so they can be parked. These activities will recommence six months prior to FID.
- Continued development of the Toliara Project's Environmental and Social Management System.
- Continuation of implementation readiness systems development.

Total expenditure on the Toliara Project for the quarter was US\$4.9 million (last quarter: US\$3.3 million).

Extensional exploration – Kenya

Mining tenure arrangements continued to progress with the Kenyan Ministry of Petroleum and Mining as a precursor to an anticipated updated Ore Reserves estimate to incorporate additional Mineral Resources defined within the Kwale Prospecting Licence (**PL 2018/0119**) but outside the current mining lease SML23. However, progress has slowed as the government focuses on combating the COVID-19 pandemic.

The pre-feasibility study for mining the North Dune Resource was progressed and remains on schedule for completion in early 2021.

Completion of the remaining drilling program (4,200 metres) in the North-East Sector (Kwale East) of PL 2018/0119 remains on hold pending community access being secured. Further drilling of the northern sections of the Vanga Prospecting License (PL/2015/0042) remains on hold pending resolution of community access issues. A north eastern extension of the Vanga Prospecting Licence is under application (App No/1753) to cover further prospective ground which has since become available.

The additional prospecting licence applications lodged for an area south of Lamu (Apps No/2136, 2146 and 2153) together with an area in the Kuranze region of Kwale county about 70 km west of Kwale Operations (App No/2123) remain in progress through the granting process. Expenditure on exploration activities in Kenya during the quarter was US\$0.2 million (last quarter: US\$0.1 million).

CORPORATE

Kenyan VAT receivable

As previously announced, Base Resources has refund claims for VAT paid in Kenya, relating to both construction of the Kwale Project and the period since operations commenced, which totalled approximately US\$17.9 million at 30 June 2020. These claims are proceeding through the Kenya Revenue Authority process with refunds totalling US\$2.6 million received during the quarter (last quarter: US\$3.1 million). Base Resources is continuing to engage with the Kenyan Treasury and the Kenya Revenue Authority, seeking to expedite the refund claims.

FY20 full year financial results

The Company is targeting release of its FY20 audited consolidated financial statements in the week commencing 24 August 2020. Timing confirmation and shareholder and investor call details will be advised closer to the planned release.

In summary, at 30 June 2020:

- Net cash of US\$87.6 million, consisting of:
 - Cash and cash equivalents of US\$162.6 million.
 - Revolving Credit Facility debt of US\$75.0 million.
- 1,171,609,774 fully paid ordinary shares on issue.
- 69,167,541 performance rights issued pursuant to the terms of the Base Resources Long Term Incentive Plan, comprising:
 - 6,527,607 vested performance rights, which remain subject to exercise⁷.
 - 62,639,934 unvested performance rights, which are subject to performance testing in accordance with their terms of issue.

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Forward looking statements

Certain statements in or in connection with this announcement contain or comprise forward looking statements. Such statements may include, but are not limited to, statements with regard to capital cost, capacity, future production and grades, sales projections and financial performance and may be (but are not necessarily) identified by the use of phrases such as “will”, “expect”, “anticipate”, “believe” and “envisage”. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and may be outside Base Resources’ control. 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 product prices and exchange rates and business and operational risk management. Subject to any continuing obligations under applicable law or relevant stock exchange listing rules, Base Resources 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.

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This release has been authorised by the Board of Base Resources.

About Base Resources

Base Resources is an Australian based, African focused, mineral sands producer and developer with a track record of project delivery and operational performance. The Company operates the established Kwale Operations in Kenya and is developing the Toliara Project in Madagascar. Base Resources is an ASX and AIM listed company. Further details about Base Resources are available at www.baseresources.com.au.

⁷ Vested performance rights have a nil cash exercise price and, unless exercised beforehand, these rights expire on 30 September 2024.