

Quarterly Activities Report – December 2020

Key points

- Kwale Operations has maintained operational consistency through the quarter with health and safety protocols in place to minimise the risk of COVID-19 to personnel and surrounding communities.
- Ongoing firm demand from customers in the quarter supported further ilmenite price increases, while zircon and rutile prices have stabilised.
- Kwale North Dune PFS progressed and is scheduled for release early in the June quarter.
- Exploration drilling re-commenced in the North Vanga region near Kwale Operations.
- Discussions with the Government of Madagascar on Toliara Project fiscal terms continue to progress.
- Activities to support vulnerable local communities affected by COVID-19 in Kenya and Madagascar continued.

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.

COVID-19 UPDATE

Base Resources continues to closely monitor the COVID-19 pandemic and its impacts on the Company's business, people and wider stakeholders. The Company's **Kwale Operations** in Kenya continues to operate under a suite of mitigations aimed at protecting the health and safety of our employees and neighbouring communities, including modified workplace practices and a focus on hygiene and social distancing. The Company is also 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	Dec 2019 Quarter	Mar 2020 Quarter	June 2020 Quarter	Sept 2020 Quarter	Dec 2020 Quarter
Production (tonnes)					
Ilmenite	91,406	105,035	84,843	65,863	78,500
Rutile	19,812	23,683	19,035	15,513	18,171
Zircon	7,923	9,163	7,590	6,000	6,677
Zircon low grade ¹	546	780	578	426	516
Sales (tonnes)					
Ilmenite	106,544	87,819	102,364	75,502	53,798
Rutile	13,078	25,280	27,268	11,651	12,017
Zircon	7,090	7,377	9,086	7,336	6,399
Zircon low grade ¹	616	-	1,516	505	-

Mining operations continued according to plan on the South Dune orebody with mined tonnage increasing to 4.6Mt (last quarter: 3.9Mt) due to higher mining faces reducing the downtime associated with relocating mining units. The heavy mineral (**HM**) grade of ore mined was also higher at 3.68% (last quarter: 3.16%). This was driven by the mine path as well as better grade than predicted by the resource model in some areas mined.

¹ Reported as tonnes of zircon concentrate, it typically realises between 30% to 50% of the value of the equivalent volume of standard grade zircon, due to rutile credits.

Mining & WCP Performance	Dec 2019 Quarter	Mar 2020 Quarter	June 2020 Quarter	Sept 2020 Quarter	Dec 2020 Quarter
Ore mined (tonnes)	4,579,386	4,295,645	4,271,811	3,938,494	4,600,172
HM %	4.22	3.86	3.87	3.16	3.68
VHM %	3.29	2.98	2.95	2.32	2.81
HMC produced (tonnes)	189,952	153,754	148,699	103,730	142,309

Wet concentrator plant (**WCP**) production of heavy mineral concentrate (**HMC**) was higher at 142kt (last quarter: 104kt) due to a combination of higher mined tonnes and HM grades. HMC stocks increased to 14kt at quarter end (last quarter: 5kt). Sand tails continued to be deposited into the mined-out Central Dune area and significant progress was made with rehabilitation of the mined-out areas of the South Dune, with 49 hectares provisionally rehabilitated in the quarter.

MSP Performance	Dec 2019 Quarter	Mar 2020 Quarter	June 2020 Quarter	Sept 2020 Quarter	Dec 2020 Quarter
MSP Feed (tonnes of HMC)	155,217	186,197	145,550	114,873	134,019
MSP feed rate (tph)	86	90	78	61	64
MSP recovery %					
Ilmenite	100	99	99	100	102
Rutile	102	99	100	102	102
Zircon	88	87	85	86	86

Total mineral separation plant (**MSP**) feed tonnage was higher than the prior quarter, due to improved HMC availability, while recoveries were generally steady. Consequently, production of all final products increased compared to the prior quarter.

Bulk loading operations at the Company's Likoni Port facility continued to run smoothly, dispatching a combined 64kt of bulk ilmenite and rutile during the quarter (last quarter: 85kt). Containerised shipments of rutile and zircon through the Mombasa Port proceeded according to plan.

Summary of unit costs & Revenue per tonne (US\$)	Dec 2019 Quarter	Mar 2020 Quarter	June 2020 Quarter	Sept 2020 Quarter	Dec 2020 Quarter
Unit operating costs per tonne produced	\$140	\$128	\$153	\$189	\$161
Unit cost of goods sold per tonne sold	\$141	\$175	\$189	\$192	\$207
Unit revenue per tonne of product sold	\$355	\$476	\$479	\$413	\$464
Revenue: Cost of goods sold ratio	2.5	2.7	2.5	2.1	2.2

Total operating costs of US\$16.8 million were marginally higher (last quarter: US\$16.6 million) due to higher volumes mined and processed. Increased production levels resulted in lower unit operating costs of US\$161 per tonne produced (rutile, ilmenite, zircon and low-grade zircon) (last quarter: US\$189 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\$207 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) increased due to the

higher proportion of rutile and zircon in the sales mix in the quarter (last quarter: US\$192 per tonne). Average unit revenue increased to US\$464 per tonne (prior quarter: US\$413 per tonne) due to sales mix and increased ilmenite prices. From the combination of these factors, the revenue to cost of goods sold ratio for the quarter increased to 2.2 (last quarter: 2.1).

FY21 PRODUCTION GUIDANCE

Base Resources' production guidance for financial year ended 30 June 2021 (**FY21**) remains unchanged, albeit with ilmenite currently forecast to be towards the upper end of the guidance range. However, due to the ongoing inherent uncertainties associated with the COVID-19 pandemic, a halt to, or curtailment of, operations at some point in the future remains possible. In such an event, the Company may update or withdraw its FY21 production guidance, as appropriate in the circumstances.

Kwale Operations FY21 production guidance remains at:

- Rutile - 70,000 to 80,000 tonnes.
- Ilmenite - 270,000 to 300,000 tonnes.
- Zircon - 23,000 to 27,000 tonnes.

The above FY21 production guidance is based on the following assumptions:

- Mining of 17.2Mt at an average HM grade of 3.44%, with all remaining FY21 volume coming from Ore Reserves².
- Average MSP feed rate of 67tph.
- Average MSP product recoveries of 100.5% for rutile, 100% for ilmenite and 84% for zircon.

MARKETING

Global pigment producers have indicated that the strong recovery in demand seen in the prior quarter continued through the December quarter and it is now estimated that global pigment production and titanium feedstock demand in 2020 exceeded that of 2019.

In response to the improved demand, western pigment producers have been ramping up production rates from late in the prior quarter and through this quarter. Chinese pigment producers have continued to operate at high output rates as the domestic market improves and high volumes of pigment exports are sustained. Globally, pigment prices have been trending up through the quarter.

Demand for ilmenite as a feedstock for Chinese pigment producers exceeded supply through the quarter resulting in further price gains for ilmenite. Ongoing strong demand and constrained supply will maintain a tight ilmenite market through the March quarter and is likely to result in further price increases.

Rutile prices softened in the quarter due to a build-up of high-grade feedstock inventory during the early part of 2020 when western pigment producers were operating at low rates. The ramp up of western pigment production through the quarter has released pressure on feedstock inventory levels. Pigment customers are indicating that pigment demand has recovered faster than expected. This is expected to increase rutile demand and, as a minimum, stabilise rutile prices in the coming quarter and improves the outlook past this. In addition, an uplift in demand for rutile in the welding sectors throughout Asia, and the Chinese titanium metal sector, is expected to further support stabilisation of rutile market conditions and prices in early 2021.

Demand for zircon improved through the quarter mainly due to an increase in zircon consumption in the European ceramics sector as economies emerged from lockdowns. Major tile producers and zircon millers in Europe, who had been holding minimal raw material inventories during lockdown, have sought to expedite new orders to enable a ramp up of production to capacity levels. The Chinese zircon market is gradually improving and there is optimism building for 2021. The management of zircon supply by some major producers to suit market conditions has been maintained and is enabling the zircon market to stabilise and recover. Sales contracts are in place for all Kwale Operations zircon production in the March quarter with prices flat compared to the December quarter.

² 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.

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 group employees and contractors have now worked 22.9 million hours lost time injury (**LTI**) free, with the last LTI recorded in early 2014. No medical treatment injuries were recorded during the quarter. With one medical treatment injury recorded in the last 12 months, the Base Resources group's total recordable injury frequency rate (**TRIFR**) is 0.25 per million hours worked.

COMMUNITY AND ENVIRONMENT

Kwale Operations

Base Resources has continued to assist the Kwale community through the COVID-19 pandemic, including collaborating with county and national health authorities to provide awareness through community health workers on COVID-19 programs and providing additional community-based handwashing equipment to help improve sanitation. Food support programs were extended to cater for the economic impact on tourism and unemployment in the Kwale region. A school support program was implemented to assist with social distancing requirements with 2,900 school desks distributed to 25 schools across Kwale County and Likoni.

Agricultural livelihood programs at Kwale saw good harvests for cotton, maize, sorghum and green grams. A temporary storage facility was built at the PAVI Business Park ahead of the completion of development of Business Park facilities with support from the national government. This will allow farmers to store cotton lint and other products in a secure and convenient location.

Construction of social infrastructure continued with Mwalewa Girls Secondary School in Lunga Lunga nearing completion in time for commencement of the new academic year in January 2021. The Mwaembe water supply project, providing clean water to communities in Msambweni, also commenced with completion anticipated in the March quarter.

Rehabilitation activities on the mined-out areas of the South Dune increased significantly in the quarter with community groups supplying indigenous legumes, grass seed and manure, and youth groups from local villages employed to assist with slope stabilisation, planting and road clearing.

Toliara Project

All community training programs and social infrastructure construction remained on hold with the Government of Madagascar's suspension of the Toliara Project's on-the-ground activities. The 24 Malagasy apprentices training in Kenya at Kwale Operations have remained on site and continue to progress through their two-year apprenticeship programs.

Base Resources continued to work with local authorities to assist in the response to the pandemic in the Toliara region by supporting face mask production in conjunction with a leading local women's group, with over 80,000 re-usable masks now produced and 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 progressed³. Activity remains suspended as Base Resources continues to engage the Government in relation to the country's Large Mining Investment Law (**LGIM**) regime, fiscal terms applicable to the Toliara Project and the lifting of the on-the-ground suspension.

As noted in the Company's FY20 Full Year Results announcement⁴, with the suspension of activity, international travel restrictions and broader COVID-19 measures and impacts both in Madagascar and globally, the final investment decision (**FID**) to proceed with development of the Toliara Project has been delayed. Once fiscal terms are agreed and the suspension is lifted, there will be

³ 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/>.

⁴ Refer to Base Resources' market announcement "Base delivers strong financial results and maiden dividend" released on 24 August 2020, which is available at <https://baseresources.com.au/investors/announcements/>.

approximately 11 months' work to complete prior to FID. This work includes finalising financing, completing the land acquisition process and concluding major construction contracts. The resumption of international travel will also be required to complete a significant portion of this work.

Key activities during the quarter included:

- Lenders' community and environmental due diligence progressing.
- Commencement of the construction insurance risk survey.
- Undertaking design works for the dedicated haul road bridge over the Fiherenana River.
- Continued negotiations with the preferred tenderers for the marine, piling and power contract packages.
- Ground water modelling work to allow drilling and borehole testing to commence shortly after lifting of the suspension of activities.

Key activities planned for the coming quarter include:

- Further engagement with the Government, focused on agreeing fiscal terms and resumption of on-the-ground activities.
- Selecting the preferred piling contractor and commencing piling design at the export storage shed.
- Selecting the preferred power supply contractor, allowing power purchase agreement negotiations to commence.
- Progressing design of the haul road bridge over the Fiherenana River.
- Ongoing engagement with prospective lenders and joint venture partners.

Total expenditure on the Toliara Project for the quarter was US\$4.0 million (last quarter: US\$3.5 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 footprint of mining lease SML23.

The pre-feasibility study for mining the North Dune Mineral Resources is scheduled for completion early in the June quarter.

Following resolution of community access issues, auger drilling of a section of the northern Vanga Prospecting License (PL/2015/0042) commenced and will continue during the March quarter. 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.

Prospecting licence applications lodged for an area south of Lamu (applications 2019 0263, 0265, 0266), together with an area in the Kuranze region of Kwale county, about 70 km west of Kwale Operations (applications 2019 0260, 2510 and 2512), remain in progress through the granting process. A Government moratorium on the issuance of Prospecting Licenses in November 2019 has affected the progress of all licence applications. However, assessment of applications has recently recommenced which is seen as a precursor to the lifting of the moratorium.

Expenditure on exploration activities in Kenya during the quarter was US\$0.1 million (last quarter: US\$0.2 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\$16.6 million at 31 December 2020. Refunds totalling US\$2.0 million were received during the quarter (last quarter: US\$1.8 million). Base Resources is continuing to actively engage with the Kenyan National Treasury and the Kenya Revenue Authority in relation to the outstanding VAT refund claims and is also taking steps under the investment agreement to secure its position with respect to the VAT paid during construction of the Kwale Project.

Maiden dividend payment

Following the Company's strong FY20 financial performance and reflecting our determination to deliver concrete returns to shareholders, the Board determined a maiden dividend of AUD 3.5 cent per share, unfranked, in August 2020. The maiden dividend was paid to shareholders on 7 October 2020, resulting in a cash payment of US\$29.8 million (in aggregate) in the quarter.

FY21 interim financial results

The Company is targeting release of its FY21 interim consolidated financial statements in the week commencing 22 February 2021. Confirmation of timing and shareholder and investor call details will be advised closer to the planned release.

In summary, as at 31 December 2020:

- Net cash of US\$74.6 million, consisting of:
 - Cash and cash equivalents of US\$99.6 million.
 - Revolving Credit Facility debt of US\$25.0 million.
- 1,178,011,850 fully paid ordinary shares on issue.
- 74,997,738 performance rights on issue pursuant to the terms of the Base Resources Long Term Incentive Plan, comprising:
 - 4,009,286 vested performance rights, which remain subject to exercise⁵.
 - 70,988,452 unvested performance rights 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.

⁵ Vested performance rights have a nil cash exercise price. Unless exercised beforehand, these rights expire five years after vesting.

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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.