

Quarterly Activities Report – September 2022

African mineral sands producer, **Base Resources Limited** (ASX & AIM: BSE) (**Base Resources** or the **Company**) is pleased to provide an operational, development and corporate update for the quarter ended 30 September 2022.

KEY POINTS

- Strong demand for rutile supported further price gains while ilmenite and zircon prices remained stable.
- Record revenue to cost of sales ratio of 3.6:1.
- Bumamani Project implementation remains on schedule - extending Kwale Operations mine life to late 2024.
- Drilling program commenced in Tanzania with 74 holes for 1,548m drilled and an auger drill program has commenced North-East of Kwale Operations.
- Discussions with the Government of Madagascar on Toliara Project fiscal terms continued to progress positively.
- Toliara Project Rare Earths Concept Study is on track for completion early in the March quarter.

KWALE OPERATIONS

Operational performance

Mining operations continued on the South Dune orebody with mined tonnage as planned at 4.4 million tonnes (**Mt**) (last quarter 3.9Mt), with the prior quarter affected by a couple of unplanned stoppages. The heavy mineral (**HM**) grade of ore mined in the quarter was lower at 3.78% (last quarter: 4.06%) due to mining of low-grade ore as mining blocks were completed.

The net result of higher tonnes mined and lower ore grade was a 4% increase in heavy mineral concentrate (**HMC**) production over the prior quarter, producing a corresponding increase to ilmenite production. However, rutile and zircon production were slightly lower in the quarter due to a combination of a lower proportion of rutile and zircon in the mineral assemblage of ore mined and lower recoveries in the mineral separation plant. The HMC stockpile remained steady at 10kt.

Bulk loading operations at the Likoni export facility continued to run smoothly, dispatching a combined 63kt of bulk ilmenite and rutile (last quarter: 116kt). Containerised shipments of rutile and zircon through the Mombasa Port also proceeded to plan.

SUMMARY BY QUARTER	FY22				FY23
	SEP	DEC	MAR	JUN	SEP
Mining (million tonnes)					
Ore mined	4.4	4.3	3.9	3.9	4.4
HM %	3.26	3.82	3.84	4.06	3.78
VHM %	2.50	2.94	2.92	3.12	2.85
Production (thousand tonnes)					
Ilmenite	72.9	84.0	84.5	83.8	86.0
Rutile	17.8	18.4	18.9	19.2	18.9
Zircon	6.1	6.4	6.3	6.8	6.6
Low grade products ¹	0.5	3.5	4.4	4.9	5.7

	FY22				FY23
	SEP	DEC	MAR	JUN	SEP
US\$ per tonne					
Sales revenue	\$668	\$459	\$740	\$691	\$714
Operating costs	\$174	\$161	\$149	\$152	\$154
Cost of goods sold	\$264	\$156	\$227	\$196	\$200
Revenue: Cost ratio	2.5	2.9	3.3	3.5	3.6
Sales (thousand tonnes)					
Ilmenite	34.1	130.0	75.5	95.7	62.6
Rutile	13.8	11.6	25.3	24.7	14.2
Zircon	5.6	6.2	6.9	7.1	6.2
Low grade products ¹	0.6	1.5	4.8	4.7	4.5

¹ Low grade products are a combination of low-grade zircon and low-grade rutile which are sold separately at a discount to standard grade products.

Sand tails continued to be deposited into the mined-out Central Dune area and capped with a co-disposed slimes/sand layer to aid water retention and subsequent rehabilitation. Rehabilitation activities on the tailings storage facility wall, Central Dune and South Dune proceeded to plan during the quarter.

Total cash operating costs of US\$17.9 million increased compared to the prior quarter (last quarter at US\$17.4 million) primarily due to the increased ore volume mined, higher pumping costs as mining continued to move further away from the plant and the increased unit cost of electricity. With a marginal increase in final production offsetting the higher operating costs, unit operating costs remained steady at US\$154 per tonne produced (rutile, ilmenite, zircon, low-grade zircon and low-grade rutile) (last quarter: US\$152 per tonne).

Cost of goods sold increased to US\$200 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) due to higher operating costs (last quarter: US\$196 per tonne), while average unit revenue increased to US\$714 per tonne (prior quarter: US\$691 per tonne) due to higher rutile prices. Consequently, the revenue to cost of goods sold ratio for the quarter reached a record high level of 3.6 (last quarter: 3.5).

FY23 production guidance

Kwale Operations production guidance for the 2023 financial year (**FY23**) remains at:

- Rutile - 62,000 to 73,000 tonnes.
- Ilmenite - 260,000 to 310,000 tonnes.
- Zircon - 22,000 to 27,000 tonnes.

The guidance is subject to the following assumptions:

- Land access arrangements being finalised in time to enable mining at the Kwale North Dune to commence in March 2023.
- Mining of 16.5Mt at an average HM grade of 3.51%.
- HMC produced by the wet concentrator plant of 571kt.
- HMC fed into the mineral separation plant of 556kt.
- Mineral separation plant recoveries of 101% for rutile, 101.5% for ilmenite and 84.5% for zircon.

MARKETING

A subdued economic environment in Asia and Europe began to impact conditions for downstream products in most market segments through the quarter, however, demand for feedstock held up well. This allowed further price gains to be achieved for rutile and stable prices for ilmenite and zircon to be maintained. Demand for most mineral sands products is expected to ease through the December quarter, however this should be partially offset by ongoing supply constraints.

Demand for imported ilmenite as a feedstock for Chinese TiO₂ pigment producers remained steady through the quarter.

Weakening Chinese domestic pigment demand is placing pressure on Chinese producers and there are reports of some plants curtailing production. However, pigment producers with exposure to export markets have been able to continue operating at high production levels as they have increased their offshore sales, particularly to Europe where several pigment producers have announced production cuts due to increasing cost pressures. While it is expected that the economic situation in Europe will reduce overall pigment demand, it is expected to continue to support Chinese pigment exports, which will, in turn, support demand for ilmenite imported into China. Most Chinese pigment exporters are dependent on imported ilmenite, as opposed to domestic ilmenite, for quality and/or logistics reasons.

A shortage of high grade TiO₂ feedstocks (which includes rutile) persisted through the first part of the September quarter resulting in further price gains being secured in sales contracts for the second half of calendar year 2022. However, easing pigment market conditions in Europe during the latter part of the quarter prompted some western pigment producers to issue guidance downgrades. This is expected to weigh on rutile demand as we move into 2023. Demand from the smaller welding and titanium metal sectors remains strong. Rutile prices are generally fixed on a half yearly basis and are therefore expected to remain flat through the December quarter.

Strong market conditions for zircon in Europe largely off-set weaker conditions in China during the quarter. However, a softening European ceramics sector is likely to see a drop in overall zircon demand during the December quarter. While zircon sales quantities

remain in line with production levels, the weakening market outlook has resulted in a reduction in zircon prices for December quarter sales contracts.

SUSTAINABILITY

Health and safety

There were no lost time injuries during the quarter resulting in a lost time injury frequency rate (**LTIFR**) for Base Resources of 0.24 per million hours worked. Compared to the Western Australian All Mines 2020/2021 LTIFR of 2.0, this remains an exceptional performance and reflects the ongoing focus and importance placed on safety by management. With two medical treatment injuries recorded in the last 12 months, Base Resources' total recordable injury frequency rate is 0.72 per million hours worked.

Community and environment – Kwale Operations

Following the late arrival of the rainy season, farmers participating in the Company's agricultural livelihood programs in Kwale, implemented through the PAVI farmers' cooperative, commenced harvesting of cotton, soybean, sunflower, pearl millet, groundnuts and sorghum, with a strong yield expected. Disbursement of funds for tertiary scholarships also commenced during the quarter.

Implementation of identified projects by the Msambweni, Lunga and Likoni Community Development Agreement Committees (**CDACs**) continued with considerable progress made on several infrastructure projects. As the CDACs have now been in place for over a year, a review of their respective operation is underway, the outcomes of which will guide enhancements for future implementation.

Indigenous legumes, grass seed and manure continued to be sourced from local community groups for use in rehabilitation activities on the mined-out sections of the South Dune and the Central Dune. Propagation of indigenous trees in the Kwale Operations nursery to use in rehabilitation areas is ongoing.

Community and environment – Toliara Project

All community training programs and social infrastructure projects remain on hold while the Company's on-ground activities are suspended.

BUSINESS DEVELOPMENT

Toliara Project development – Madagascar

Discussions with the Government of Madagascar on fiscal terms, and lifting of its on-ground suspension, continued to advance in the quarter with positive progress made.

A Final Investment Decision (**FID**) to proceed with construction of the Toliara Project remains subject to lifting of the suspension and fiscal terms being agreed with the Government of Madagascar. Once these two key milestones are achieved, there will be approximately 11 months' work to complete prior to reaching FID, including finalisation of funding, completion of land acquisition, conclusion of major construction contracts and entry of offtake agreements with customers. Contact with major EPCM consultants, construction contractors and equipment suppliers has been maintained in readiness to accelerate progress when conditions support. Assessment of potential funding options for the Toliara Project also progressed during the quarter.

The Toliara Rare Earths Concept Study, which will assess the commercial potential of the monazite contained in the Toliara Project's Ranobe Mineral Resources estimate, continued to progress and is now scheduled for completion in the March 2023 quarter.

Total expenditure on the Toliara Project for the quarter increased to US\$2.0 million (last quarter: US\$1.0 million), with increased spend on the Rare Earths Concept Study and government relations activities.

Kwale mine life extension

Implementation of the Bumamani Project continued during the quarter and mining activities on the Kwale North Dune remain on schedule to commence in March 2023. The Bumamani Project deposits, which include the Kwale North Dune, will be mined concurrently with the Kwale South Dune deposit to maximise mining rates and better manage tailings, and are expected to extend Kwale Operations mine life by 13 months to late 2024. Expenditure on the Bumamani Project during the quarter was US\$9.2 million (last quarter: US\$0.1 million) with land acquisition, earthworks and procurement activities taking place.

Extensional exploration – Kenya and Tanzania

On-ground exploration in Tanzania continued, with a 3,000m reverse circulation drilling program commencing during the quarter. At the end of the quarter, 74 holes had been drilled for a total of 1,548m. The drill samples are being exported to Kenya for analysis at the Kwale Operations laboratory. Results from the drill program are expected to be released in the March 2023 quarter. If justified by the results, a further 10,000m infill drill program is planned.

Figure 1: Reverse circulation drill rig in Tanzania.



The drill program to the North-East of Kwale Operations within Prospecting Licence 2018/0119 was on hold during the quarter pending land access being obtained. Subsequent to the end of the quarter, following community support and consent, an auger drilling program commenced in the northern sector of the area. No exploration activities were conducted on the Prospecting Licence in the Vanga region in the quarter.

Prospecting licence applications lodged for an area in the Kuranze region of Kwale county, about 70 km west of Kwale Operations, together with applications for an area south of Lamu, remain on hold pending lifting of a Government of Kenya moratorium on issuance of new mineral rights, in place since November 2019. The Company is working with the Government of Kenya, and other mining sector stakeholders, to see the moratorium lifted.

Expenditure on exploration activities during the quarter in Tanzania was US\$0.2 million (last quarter: US\$0.2 million) and in Kenya was US\$0.1 million (last quarter: US\$0.2 million).

CORPORATE

Following release of the Company's full-year results for the 2022 financial year (**FY22**) and disciplined application of the Company's capital management policy, a final dividend of AUD 3.0 cents per share (unfranked) was paid to shareholders on 22 September 2022, representing a cash payment of US\$22.7 million (in aggregate). This brought total dividends in respect of FY22 to AUD 6.0 cents per share (unfranked), equal to US\$48.8 million (in aggregate).

As at 30 September 2022, the Company had net cash of US\$73.1 million consisting of:

- cash and cash equivalents of US\$73.1 million; and
- no debt.

As at 12 October 2022, the Company had the following securities on issue:

- 1,178,011,850 fully paid ordinary shares.
- 56,850,643 performance rights pursuant to the terms of the Base Resources Long Term Incentive Plan, comprising:
 - 19,782,733 vested performance rights, which remain subject to exercise²; and
 - 37,067,910 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 future production and grades, capital cost, capacity, 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.

² Vested performance rights have a nil cash exercise price. Unless exercised beforehand, these rights expire five years after vesting.