Quarterly Activities Report – June 2017

13 July 2017

HIGHLIGHTS

- Record quarterly revenue with continued improvement in ilmenite and zircon prices.
- Record revenue to cost of sales ratio of 2.9.
- Net debt reduced by US$24.0 million to US$98.5 million.
- No lost time injuries.
- Production for financial year 2017 consistent with guidance for all products.
- Board approval of Kwale Phase 2 mine optimisation project to deliver enhanced economics.
- Production guidance for financial year 2018:
    - Rutile – 88,000 to 94,000 tonnes.
    - Ilmenite – 400,000 to 430,000 tonnes.
    - Zircon – 32,000 to 37,000 tonnes.
    - Zircon contained in zircon low grade – 1,500 to 2,500 tonnes.

African mineral sands producer, **Base Resources Limited** (ASX & AIM: BSE) ("**Base Resources**" or the "**Company**") is pleased to provide a quarterly corporate and operational update for its Kwale Mineral Sands Operations ("**Kwale Operations**") in Kenya. The quarter was characterised by continuing improvement in zircon markets, stabilising ilmenite prices and a positive outlook for rutile. The continued strong performance of Kwale Operations has reduced net debt by a further US$24.0 million in the quarter.

KWALE OPERATIONS

PRODUCTION & SALES	June 2016 Quarter	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter	June 2017 Quarter
Production (tonnes)					
Ilmenite	119,340	121,821	113,806	112,368	**119,364**
Rutile	21,766	21,886	22,870	23,107	**22,762**
Zircon	9,471	9,050	8,591	8,212	**8,375**
Zircon low grade[1]	-	2,160	2,550	2,474	**3,026**
Sales (tonnes)					
Ilmenite	150,911	139,441	97,047	122,783	**142,405**
Rutile	32,454	23,023	19,773	21,416	**27,779**
Zircon	9,590	8,525	9,432	8,069	**8,540**
Zircon low grade[1]	-	-	3,397	3,059	**3,045**

Mined tonnage increased slightly to 3.0 million tonnes ("**Mt**") from 2.7Mt in the previous quarter at an average mining rate of 1,516 tonnes per hour ("**tph**"). Mined grade increased from 6.7% Heavy Mineral ("**HM**") to 8.4% as mining continued in the same high-grade area of the Central Dune mined towards the end of the March quarter.

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

Hydraulic mining operations progressed according to plan, consistently achieving production rates above the design rate of 400tph. This operation will be upgraded to 800tph during the September quarter thereby further reducing reliance on dozer mining operations with consequent savings in operating costs.

MINING & WCP PERFORMANCE	June 2016 Quarter	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter	**June 2017 Quarter**
Ore mined (tonnes)	2,363,395	2,325,174	3,049,333	2,664,738	**2,975,694**
HM %	9.87	7.51	5.83	6.70	**8.40**
HMC produced (tonnes)	226,453	164,192	152,259	159,379	**232,574**

With the benefit of circuit modifications implemented during the March quarter, HM recovery in the wet concentrator plant ("**WCP**") remained above target, notwithstanding the increase in mining rates in the June quarter.

Heavy mineral concentrate ("**HMC**") production from the WCP increased from 159.4 thousand tonnes ("**kt**") to 232.6kt due to higher mined tonnage and grade. HMC stocks at quarter end increased from 43.5kt to 83.6kt. Concentrator availability during the quarter was high at 90%, compared to 88% in the prior quarter. HMC inventory is being built up to enable uninterrupted Mineral Separation Plant ("**MSP**") feed during implementation of the Kwale Phase 2 Project.

The tailings storage facility ("**TSF**") sand wall stacking, lining and slimes deposition continued according to plan, with the final wall lift now underway. Once this lift is complete, sand stacking will move to the mined-out area of the Central Dune representing the start of rehabilitation in this section. Rehabilitation of the TSF outer wall commenced during the quarter, with promising vegetation growth achieved.

Good rains were received during the quarter, resulting in the Mukurumudzi Dam reaching its full capacity of 8.6GL and spilling in May. Regulatory approval was received to increase borefield abstraction from 5,280 to 9,060 cubic meters per day by increasing production from existing bores and drilling two additional bores, with this additional water supply being required to satisfy the increased demands of the Kwale Phase 2 Project.

MSP PERFORMANCE	June 2016 Quarter	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter	**June 2017 Quarter**
MSP Feed (tonnes of HMC)	187,244	193,349	191,576	186,814	**192,432**
MSP feed rate (tph)	88	92	91	91	**92**
MSP recovery %					
Ilmenite	101	100	99	101	**101**
Rutile	99	94	98	99	**98**
Zircon	78	73	73	74	**73**

The MSP achieved an average feed rate of 92tph for the quarter and availability increased slightly to 96% (with a total of 192.4kt of HMC processed (186.8kt last quarter).

Rutile production was slightly lower at 22.8kt (23.1kt last quarter), despite the increased MSP feed, due to lower rutile content in the mineral assemblage. Rutile recovery remained steady at 98%.

Ilmenite production increased to 119.4kt (112.4kt last quarter) due to higher ilmenite content in the mineral assemblage. Average ilmenite recoveries for the quarter remained at 101%[2].

[2] The presence of altered ilmenite species that are not defined as either "rutile" or "ilmenite" in the Resource but are recovered in the production of both, results in calculated recoveries above 100% being achievable for both products.

Zircon production increased to 8.4kt (8.2kt last quarter) due to the increased MSP feed. Average zircon recovery of 73% was in line with last quarter, but lower than the design target of 78%. Circuit optimisation and modifications continue.

In addition to primary zircon, in July 2016 Kwale Operations commenced production of a lower grade zircon product ("**zircon low grade**") from re-processing of zircon tails into a zircon rich concentrate. Zircon low grade typically realises 70-80% of the value of each contained tonne of zircon. Reported zircon low grade represents the volume of zircon contained in the concentrate. To date, zircon low grade has been produced from the re-processing of run-of-production and stockpiled zircon circuit tails and this is anticipated to conclude in the September quarter. During the June quarter, 3.0kt of zircon low grade was produced (2.5kt last quarter) and a single shipment containing 3.0kt of zircon low grade was made to China (3.1kt last quarter). When combined with primary zircon recoveries, the production of zircon low grade effectively lifts total zircon recoveries well above the design target of 78%.

Bulk loading operations at Base Resources' Likoni Port facility continued to run smoothly, dispatching more than 178kt of ilmenite, rutile and zircon low grade during the quarter (152kt last quarter). Containerised shipments of rutile and zircon through the Mombasa Port proceeded according to plan.

SUMMARY OF UNIT COSTS & REVENUE PER TONNE (US$)	June 2016 Quarter	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter	**June 2017 Quarter**
Unit operating costs per tonne produced	$93	$77	$84	$87	**$96**
Unit cost of goods sold per tonne sold	$99	$90	$106	$111	**$103**
Unit revenue per tonne of product sold	$201	$200	$250	$258	**$297**
Revenue:Cost of goods sold ratio	2.0	2.2	2.4	2.3	**2.9**

Total operating costs were slightly higher than recent quarters due to the recognition of typical end of financial year costs, however the unit operating cost of US$96 per tonne produced (rutile, ilmenite, zircon and zircon low grade) is consistent with the same quarter in the prior year. Cost of goods sold of US$103 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) were lower than last quarter (US$111 per tonne sold) due the impact of product sales mix.

Revenue per tonne of product sold varies significantly each quarter depending on the number of bulk rutile sales during that quarter. 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 June quarter saw three bulk rutile sales taking total rutile sales to 27.8kt, higher than the prior quarter's 21.4kt total rutile sales. When combined with the higher ilmenite sales volume, higher ilmenite and zircon prices and zircon low grade sales, this contributed to the increase in average revenue per tonne to US$297 per tonne (US$258 last quarter).

FY2018 PRODUCTION GUIDANCE	FY2016 Actual	FY2017 Actual	**FY2018 Guidance Range**
Rutile (tonnes)	85,654	90,625	88,000 to 94,000
Ilmenite (tonnes)	455,870	467,359	400,000 to 430,000[3]
Zircon (tonnes)	31,389	34,228	32,000 to 37,000
Zircon contained in zircon low grade (tonnes)	nil	10,210	1,500 to 2,500

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

- Mining of 10.2Mt at an average HM grade of 7.32%, all from Ore Reserves[4].
- MSP feed rate at an average of 89tph, consistent with recent performance.
- MSP product recoveries of 100% for ilmenite and 99% for rutile, and 77% for zircon, consistent with past performance and anticipated recovery improvements from ongoing MSP optimisations.

MARKETING

The global TiO_2 pigment industry continued to firm through the June quarter. The ongoing strong demand for TiO_2 feedstock from pigment plants, now operating at high utilisation rates, resulted in further feedstock price increases through the quarter. Several of the leading global pigment producers announced a further round of significant pigment price increases taking effect through June and July 2017.

Prices for Base Resources' ilmenite levelled out late in the June quarter after experiencing further solid gains early in the quarter. Market prices for some sources of ilmenite in China (mostly Chinese domestic ilmenite) surged to very high levels by April 2017 and have recently come under some pressure from pigment producers concerned about the pace of growth in their input costs. Ongoing political disruptions to ilmenite exports from Tamil Nadu in India are now being off-set to some extent by an increase in ilmenite supply from various sources of low quality, high cost concentrates – stimulated by the high market prices. Chinese domestic ilmenite production has increased slightly following the disruptions of widespread environmental inspections in late 2016. However, Chinese ilmenite production, which is mostly produced as a by-product of vanadium titanomagnetite mining, remains suppressed by the fall in the iron ore price.

The ongoing strength in pigment demand and pricing is expected to help stabilise prices for ilmenite at the current healthy levels through the coming quarters.

Despite strong demand, the overhang of high grade TiO_2 feedstock capacity has resulted in only moderate price improvement for rutile in recent quarters. However, there are increasing signs of an emerging supply deficit in this high-grade sector and there is an expectation that mainstream contracted rutile prices will experience increased upward momentum through the second half of 2017. Spot prices for rutile increased sharply through the quarter – with prices in China increasing by over 30%. While spot sales for rutile are a relatively minor part of the total market, they are seen as an indicator of the overall supply/demand balance and will influence the pricing outcome for bulk rutile contracts in the second half of 2017.

Zircon demand was strong through the June quarter with enquiries and volumes requested from customers far exceeding the Company's capacity to supply. Lower than anticipated global zircon production for 2017 has reduced inventories and

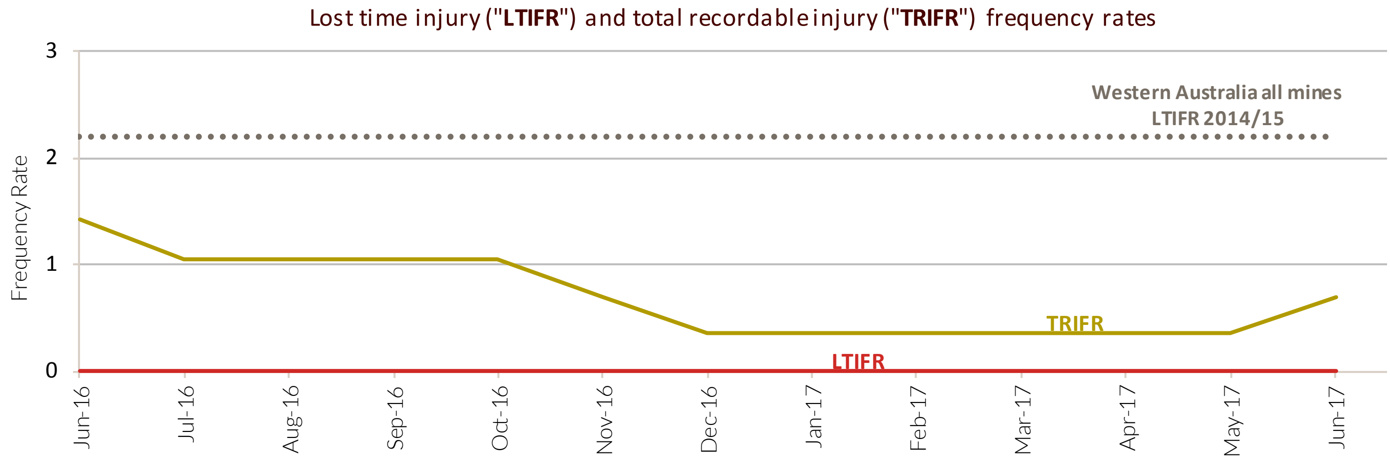
[3] Ilmenite production is expected to be lower than financial year 2017, predominantly due to lower ilmenite content in the ore scheduled to be mined.

[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.

led to an increasingly tight market and solid price improvement since the December quarter of 2016. Base Resources has secured an increase of US$150/t on all zircon contracts for the September quarter. Potential remains for further price improvement in the December quarter.

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 9.7 million man-hours LTI free, with the last LTI recorded in the March quarter of 2014. The total recordable injury frequency rate ("**TRIFR**") has ticked up slightly with one minor medically treated injury late in the quarter.



COMMUNITY AND ENVIRONMENT

Agricultural livelihood programmes, 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. Our aim is to reach commercial scale to provide increased incomes to local families that can be sustained beyond the life of the Kwale Operations.

During the quarter, planting in the latest rotation of the cotton, potato, sorghum and maize programmes was completed in preparation for the "long rains" season. Unfortunately, the extremely heavy rains subsequently experienced caused extensive flooding in the region, necessitating the replanting of around 20% of crops.

A consignment of 30 tonnes of Kenyan cotton lint was exported to Bangladesh for further processing into garments for Cotton On. Five tonnes of this shipment were produced through the Kwale Cotton project, a positive outcome despite challenging drought conditions last year. The proceeds of the sale of this crop have been returned to the farmers' cooperative to prepare them to manage crop inputs for the current planting season. Training programmes are already underway to build capacity for the cooperative's administrators.

Rehabilitation of TSF slopes continues on schedule despite the very heavy rainfall experienced. Erosion control measures worked well and vegetation growth on stabilised slopes is outstanding. Local women's groups have continued to provide materials and labour, injecting significant incomes into villages surrounding the mine site. This also featured in discussions held with local stakeholders, including Kwale County Government, on ways to increase local content in the supply of goods and services.

In June, the Kwale Operations received an award from the Kenyan National Environmental Management Authority in recognition of the considerable effort and outcomes in environmental management and biodiversity conservation.

BUSINESS DEVELOPMENT

EXTENSIONAL EXPLORATION - KENYA

Having completed the previously reported extensional and infill drilling of the South Dune orebody in the March quarter, exploration work during this quarter comprised drill sample analysis, detailed mineralogy and geological interpretation with a view to completing an updated JORC compliant Mineral Resource Estimate during the September quarter.

As previously reported on 2 March 2017, drilling results show a substantial increase in the dimensions of the South Dune Deposit (950m at an average of 700m across strike) and the discovery of the Mafisini Deposit (1,240m and up to 480m in width), separated from the South Dune by a narrow alluvial lowland.[5] These discoveries are marked in the SW Sector of Figure 1.

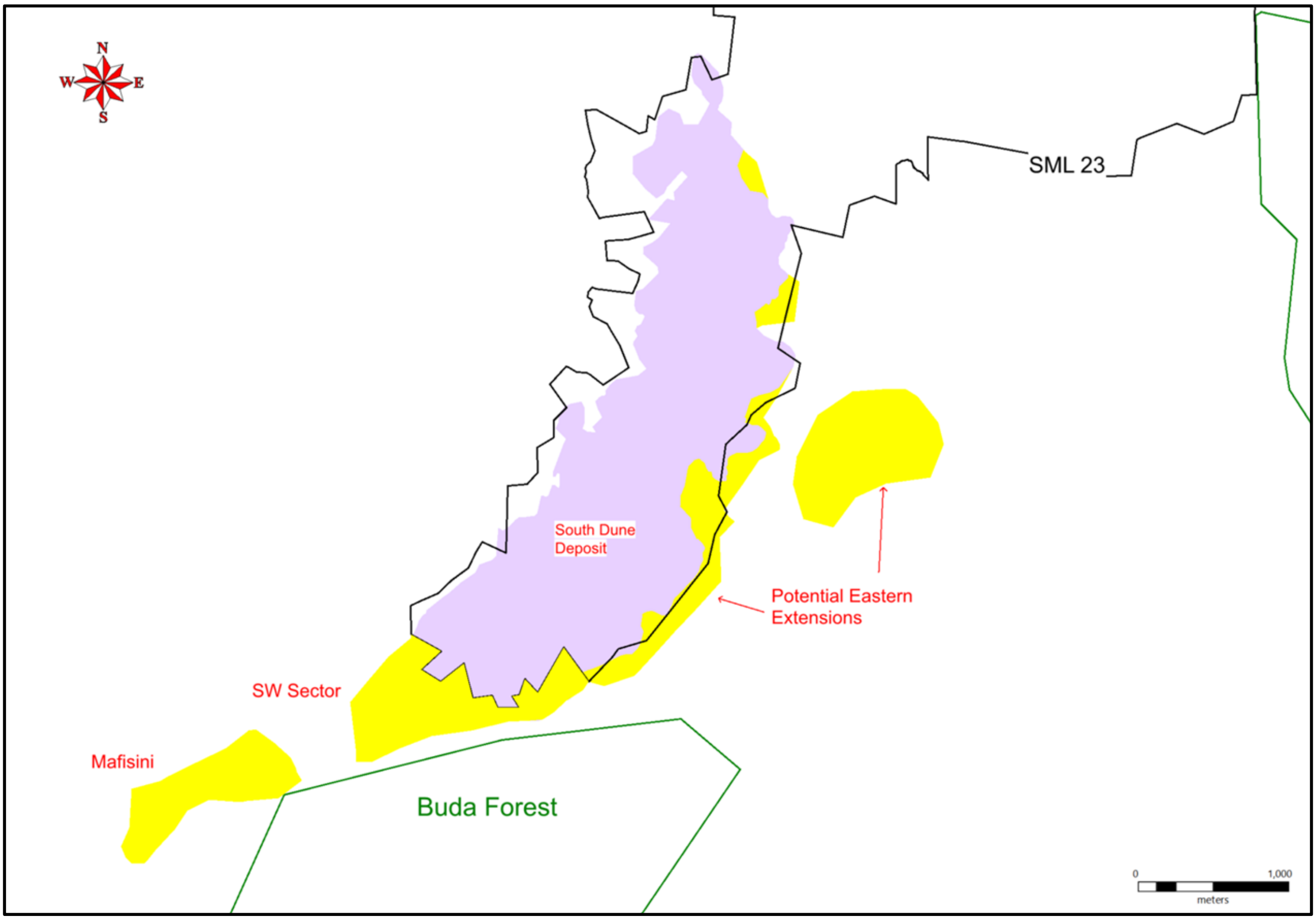


Figure 1: South Dune Deposit with estimated mineralised extensions in the SW Sector and along the eastern edge of the deposit.

As previously reported on 10 May 2017, substantial edge definition drilling was completed in the quarter, along the eastern margins of the South Dune Deposit, which indicates the potential for a significant extension of this deposit, marked as Potential Eastern Extension in Figure 1[6].

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[5] Refer to Base Resources' market announcement on 2 March 2017. Base Resources confirms that it is not aware of any new information or data that materially affects the information included in its announcement on 2 March 2017.

[6] Refer to Base Resources' market announcement on 10 May 2017. Base Resources confirms that it is not aware of any new information or data that materially affects the information included in its announcement on 10 May 2017.

The next phase of exploration drilling is anticipated to commence early in 2018 in the North-East Sector, adjacent to the Central Dune.

EXPLORATION - TANZANIA

The Company holds five prospecting licenses in northern Tanzania with a combined area of 475km^2.

The necessary consents and clearances ahead of a planned preliminary drilling programme across all five licenses are in place. However, field work, previously scheduled to commence during the September quarter, has been postponed to later in FY2018.

Total exploration expenditure for the quarter, across all licenses in Kenya and Tanzania, was US$0.1 million.

KWALE PHASE 2 PROJECT

On 23 May 2017, following completion of the Definitive Feasibility Study ("**DFS**"), the Board approved implementation of the Kwale Phase 2 Project ("**KP2**") at the Kwale Operations. The DFS confirmed the opportunity for significant improvement in the financial returns for Kwale Operations through further optimisation of the remaining mine life.

The key benefits of KP2 are:

- Bringing forward of revenue by maintaining current production levels for the remainder of the mine life, overcoming the declining ore grades in the current Ore Reserve through the de-constraining of the mine and concentrator plant.
- Faster mining and processing of Ore Reserves over a 24-month shorter period, eliminating approximately US$60 million in fixed costs, with a commensurate reduction in average operating cost per tonne produced and significantly enhancing project economics compared with the current mine plan.
- Increases the importance of, and value leverage from, potential mine life extensions emerging from the exploration programme that is underway.

The features, impacts and implementation plan for KP2 are further explained in the Company's market announcement on 23 May 2017.

CORPORATE

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$19.7 million at 30 June 2017. These claims are proceeding through the Kenya Revenue Authority process, with operational period claims, totalling approximately US$0.3 million, settled during the quarter. Base Resources is continuing to engage with the Kenyan Treasury and the Kenya Revenue Authority, seeking to expedite the remainder of the refund.

In summary, at 30 June 2017:

- Net debt of US$98.5 million, consisting of:
  - Cash and cash equivalents were US$28.3 million (unrestricted) and an additional US$26.2 million (restricted – debt service reserve account).
  - Debt of US$153.0 million.
- 742,231,956 shares on issue.
- 61,425,061 options (exercise price of A$0.40, expiring 31 December 2018).
- 67,088,421 performance rights issued pursuant to the terms of the Base Resources Long Term Incentive Plan.

ENDS.

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Keith Spence	Non-Executive Chairman
Tim Carstens	Managing Director
Colin Bwye	Executive Director
Sam Willis	Non-Executive Director
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