

HIGHLIGHTS

- Significant zircon price increases achieved for current quarter sales and further price increase locked in for contracted December quarter sales.
- Hydraulic mining operations successfully increased from 400tph to 800tph.
- Kwale South Dune Mineral Resources estimate increased following completion of extensional and infill drilling, delivering a 19% or 560kt increase in contained in situ heavy mineral within the Measured and Indicated Resource categories.
- Net debt further reduced by US\$11.9 million to US\$86.6 million.
- Increase in FY2018 production guidance for both ilmenite and zircon.
- No lost time injuries.
- Awarded “Flagship Project” status within Kenya’s Vision 2030 economic development framework.

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\$11.9 million in the quarter.

KWALE OPERATIONS

PRODUCTION & SALES	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter	June 2017 Quarter	Sept 2017 Quarter
Production (tonnes)					
Ilmenite	121,821	113,806	112,368	119,364	119,376
Rutile	21,886	22,870	23,107	22,762	22,789
Zircon	9,050	8,591	8,212	8,375	9,136
Zircon low grade ¹	2,160	2,550	2,474	3,026	1,425
Sales (tonnes)					
Ilmenite	139,441	97,047	122,783	142,405	106,260
Rutile	23,023	19,773	21,416	27,779	12,594
Zircon	8,525	9,432	8,069	8,540	9,283
Zircon low grade ¹	-	3,397	3,059	3,045	-

Mined tonnage remained steady at 3.0 million tonnes (“**Mt**”) while ore grade remained high at 8.0% Heavy Mineral (“**HM**”) (8.4% HM last quarter) as mining continued in the same high-grade area of the Central Dune mined during the previous quarter.

The staged increase in the throughput of the hydraulic mining unit (“**HMU**”) progressed according to plan, with the HMU

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

successfully increasing from 400 tonnes-per-hour (“tph”) to 800tph during the quarter, with a mining rate of 859tph achieved in September. The increase in HMU capacity has commensurately reduced the demand on dozer mining operations.

MINING & WCP PERFORMANCE	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter	June 2017 Quarter	Sept 2017 Quarter
Ore mined (tonnes)	2,325,174	3,049,333	2,664,738	2,975,694	3,023,550
HM %	7.51	5.83	6.70	8.40	8.01
HMC produced (tonnes)	164,192	152,259	159,379	232,574	238,580

WCP heavy mineral concentrate (“HMC”) production for the quarter increased slightly to 238.6kt, lifting HMC stocks from 83.6kt to 131.7kt by quarter end as a result of continued high ore grades, mined tonnages and concentrator availability (91% versus 90% last quarter). HMC inventory is being built up to enable uninterrupted Mineral Separation Plant (“MSP”) feed during the final implementation stage of the Kwale Phase 2 Project, where a one month shut of the WCP is scheduled to tie in plant modifications and equipment upgrades.

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 continued during the quarter with 15,000m² vegetated to date.



Rehabilitation works at the TSF with the Mukurumudzi Dam in the background.

Moderate rainfall of 252mm was received during the quarter, ensuring the Mukurumudzi Dam capacity remained high at 89% or 7.5GL of storage ahead of the ‘short rains’ in the December quarter, which should provide a further opportunity to replenish water storage levels.

MSP PERFORMANCE	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter	June 2017 Quarter	Sept 2017 Quarter
MSP Feed (tonnes of HMC)	193,349	191,576	186,814	192,432	190,499
MSP feed rate (tph)	92	91	91	92	91
MSP recovery %					
Ilmenite	100	99	101	101	100
Rutile	94	98	99	98	100
Zircon	73	73	74	73	75

The MSP availability decreased slightly to 95% (96% last quarter) with a total of 190.5kt of HMC processed (192.4kt last quarter).

Rutile production remained steady at 22.8kt (22.8kt last quarter) with an increased rutile recovery of 100%² (98% last quarter) offsetting the lower feed tonnage.

Ilmenite production also remained steady at 119.4kt (119.4kt last quarter) with higher contained ilmenite in the feed offsetting the reduced recoveries of 100%² (101% last quarter) and lower feed tonnage.

Zircon production increased significantly to 9.3kt (8.4kt last quarter) due to higher contained zircon in the feed and average recoveries increasing to 75% (73% last quarter) with 78% achieved for the month of September following process optimisation and circuit changes.

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. The current production cycle for zircon low grade ended in September 2017, when feed stockpiles were exhausted. During the quarter, 1.4kt of zircon low grade was produced (3.0kt last quarter) with a final shipment scheduled in early October. Zircon tails are again being stockpiled and production of zircon low grade will recommence once sufficient stocks have been accumulated.

Bulk loading operations at Base Resources’ Likoni Port facility continued to run smoothly, dispatching more than 116kt of ilmenite and rutile during the quarter (178kt last quarter). Containerised shipments of rutile and zircon through the Mombasa Port proceeded according to plan.

SUMMARY OF UNIT COSTS & REVENUE PER TONNE (US\$)	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter	June 2017 Quarter	Sept 2017 Quarter
Unit operating costs per tonne produced	\$77	\$84	\$87	\$96	\$90
Unit cost of goods sold per tonne sold	\$90	\$106	\$111	\$103	\$102
Unit revenue per tonne of product sold	\$200	\$250	\$258	\$297	\$271
Revenue:Cost of goods sold ratio	2.2	2.4	2.3	2.9	2.7

Total operating costs were lower than last quarter (due to the prior quarter including recognition of typical end of financial year costs) which, with similar production volumes, resulted in a lower unit operating cost of US\$90 per tonne produced (rutile, ilmenite, zircon and zircon low grade) (US\$96 per tonne last quarter). Cost of goods sold of US\$102 per tonne sold

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.

(operating costs, adjusted for stockpile movements, and royalties) were in line with last quarter.

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 September quarter had only one bulk rutile sale taking total rutile sales to 12.6kt, lower than the prior quarter's 27.8kt total rutile sales due to shipment timing. When combined with the reduced ilmenite price and higher zircon prices achieved in the quarter, the average revenue per tonne decreased to US\$271 per tonne (US\$297 last quarter).

KWALE PHASE 2 MINE OPTIMISATION PROJECT

To counter declining ore grades expected from mid-2018 onwards, and to fully exploit the increase in MSP capacity now available, the Board approved, in May 2017, the implementation of the Kwale Phase 2 ("KP2") Project (refer to the announcement on 23rd May 2017³).

The KP2 Project aims to maximise HMC feed to the MSP, and therefore maintain final production volumes at around current levels for the remaining life of mine, by increasing mining rates as ore grade declines. This will be achieved through increasing the hydraulic mining capacity to three 800tph HMUs, while gradually phasing out the existing dozer trap mining unit ("DMU"). The combined mining rate will therefore increase to 2,400tph, representing an uplift of 60% compared to the 1,501tph achieved in the current quarter. The WCP and water supply infrastructure are being upgraded in parallel to accommodate the higher mining rates.

Construction is on track for completion in the June quarter of 2018. 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 being phased out over the same period.

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.

FY2018 PRODUCTION GUIDANCE	Previous FY2018 Guidance Range	New FY2018 Guidance Range
Rutile (tonnes)	88,000 to 94,000	no change
Ilmenite (tonnes)	400,000 to 430,000	420,000 to 450,000
Zircon (tonnes)	32,000 to 37,000	33,000 to 38,000
Zircon contained in zircon low grade (tonnes)	1,500 to 2,500	no change

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

- Mining of 10.6Mt (previously 10.2Mt) at an average HM grade of 7.50% (previously 7.32%), all from Ore Reserves⁴.
- MSP feed rate at an average of 91tph (previously 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.

³ Refer to 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/> or through Base Resources' AIM Rule 26 web page.

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

The global TiO₂ pigment industry continued its strength through the quarter. High plant utilisation rates and low inventory levels among the major western pigment producers have led to further price improvement – with the latest round of pigment price increases to take effect from the beginning of the December quarter. However, a build-up of Chinese pigment stocks towards the end of the June quarter resulted in Chinese domestic pigment prices retreating from the very high levels they had reached to that point. This, in turn, tempered demand for ilmenite in China at the same time as domestic and imported ilmenite supply was increasing, leading to ilmenite price discounting in China during the early part of this quarter.

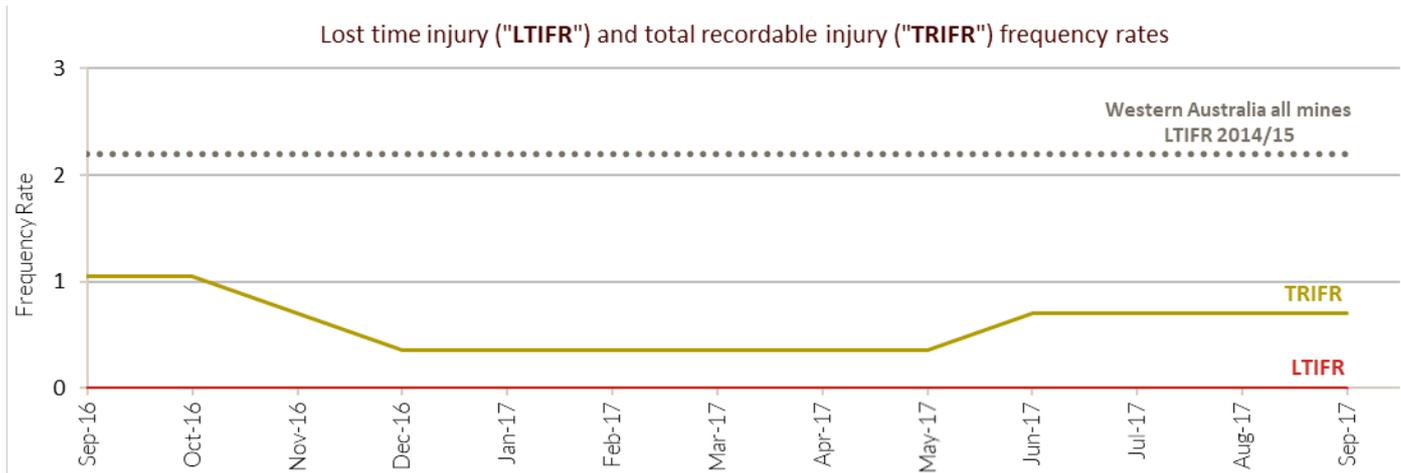
Chinese domestic ilmenite production dropped sharply through July and August on the back of renewed central government environmental inspections. Ilmenite supply from Vietnam into China has also decreased significantly since June, as it appears that export quotas from the Vietnamese government have finally been exhausted with no new quotas being issued at this time. These supply constraints, when combined with improving ilmenite demand from increased pigment production during the seasonally strong northern Autumn, has seen ilmenite prices begin to move upwards again through the latter part of the September quarter and into the December quarter. It is expected that prices will experience continued modest improvement through the December quarter.

An emerging supply deficit in the high-grade feedstock sector (which includes rutile) is resulting in continued upward price momentum. Contract renewals for sales of bulk rutile to large mainstream customers in the second half of calendar year 2017 are reported to be at price premiums in the order of 10%. However, overall average market prices are constrained by the fact that most of the global high-grade feedstock volume was contracted on a 12-month fixed price basis for the 2017 calendar year – a common practice for high grade feedstocks in recent years.

Zircon demand was again strong through the September quarter with enquiries and volumes requested from customers continuing to exceed the Company's capacity to supply. Lower than anticipated global zircon supply, from both inventories and ongoing production, for calendar 2017 has led to an increasingly tight market and solid price improvement since the start of the year. Base Resources has secured an increase of US\$150 per tonne on zircon contracts for the December quarter – making a total gain of US\$300 per tonne or 34% since the end of FY2017. It is expected that prices will stabilise into the seasonally quieter March quarter 2018.

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 10.4 million man-hours LTI free, with the last LTI recorded in the March quarter of 2014. The total recordable injury frequency rate (“**TRIFR**”) remained steady at 0.7 per 1 million man-hours worked.



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. These programmes, covering cotton, potato, sorghum and poultry, now involve around 900 smallholder farmers and community groups, with the ultimate aim being to establish new agricultural opportunities that will provide economic growth well beyond the life of mining activities.

Development of the farmers’ cooperative to manage these programmes as they expand is progressing well with the recent appointment of the CEO and finance officer and a range of capacity building training programmes underway. The proceeds from the agricultural programmes are now being managed by the cooperatives, together with preparations for next planting season.

Rehabilitation of the TSF slopes continues with encouraging success. Rainfall received during the quarter ensured good vegetative growth and erosion control measures worked well. Irrigation will be installed during the next quarter to ensure sustainability as the dry season approaches. Local women’s groups have continued to provide materials and labour, injecting significant incomes into villages surrounding the mine site.

Base Resources participated in the 2017 Mombasa International Show run by the Agricultural Society of Kenya and won first prize in the Best Local Stand in Strategies of International Trade and Export category. It was an excellent opportunity to showcase Base Resources’ agricultural livelihood programmes and engage with the public from across the region regarding mining and its links to community development.

BUSINESS DEVELOPMENT

EXTENSIONAL EXPLORATION - KENYA

As announced on 4th October 2017⁵, an updated Mineral Resource estimate for the Kwale South Dune (the “**2017 Kwale South Dune Mineral Resource**”) has been completed, incorporating the results of an extensional and infill drill programme completed earlier this year. The updated Kwale South Dune Mineral Resource delivered a:

- 19% or 560kt increase in contained in situ HM within the Measured and Indicated categories.
- 29% increase in overall Mineral Resource tonnes to 114.1Mt.
- 13% increase in contained in situ HM to 3.47Mt.
- Significant increase in confidence with 76% of the heavy mineral tonnes now within the Measured category.

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

EXPLORATION - TANZANIA

The Company holds five prospecting licences in northern Tanzania with a combined area of 475km².

The necessary consents and clearances ahead of a planned preliminary drilling programme across all five licences are in place. Field work is planned to start in the December quarter subject to drilling rig availability.

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

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\$21.1 million at 30 September 2017. These claims are proceeding through the Kenya Revenue Authority process, although no refunds were received during the quarter (US\$0.3 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 30 September 2017:

- Net debt of US\$86.6 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\$141.2 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.

⁵ Refer to 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/> and Base Resources’ AIM Rule 26 web page. 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.

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