

## Quarterly Activities Report – March 2020

### Key points

- Kwale Operations continue uninterrupted with health and safety procedures implemented to minimise the risk of COVID-19 to personnel and surrounding communities.
- Production increases from prior quarter across all products.
- Ongoing sound demand from customers, with ilmenite and rutile prices continuing to strengthen in the quarter while zircon prices reduced slightly.
- On the basis of continued operations, FY2020 production guidance is maintained.
- Kwale North Dune pre-feasibility study commenced.
- Positive progress with the Government of Madagascar on the Toliara Project fiscal terms and lifting of the suspension of on-ground activities was halted as ministries were suspended to manage the COVID-19 pandemic.
- Toliara Project FID delayed due to COVID-19 impacts and uncertainty.
- Full US\$75m revolving credit facility drawn down to enhance liquidity and provide flexibility during the COVID-19 pandemic.

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 sound customer demand, production at the Company's Kwale Mineral Sands Operations (**Kwale Operations**) in Kenya has continued uninterrupted with broad health and safety procedures implemented to minimise the risk of COVID-19 to our personnel and surrounding communities.

Discussions with the Government of Madagascar on fiscal terms, and the lifting of the suspension of on-the-ground activities, for the Toliara Project progressed positively over the quarter but have been temporarily halted with the Government focusing on combating the COVID-19 pandemic. Other activities to progress the project, such as front-end engineering design, continued in the quarter.

### COVID-19 IMPACTS

COVID-19 and its impacts on the Company's business, people and stakeholders is the subject of ongoing close monitoring and response development.

Kwale Operations continue to be maintained, balancing the considerations of employee and community health, operational safety, community benefits, government policy and regulation, customer demand and financial prudence. Consequently, a halt to, or curtailment of, operations at some point in the future is possible if circumstances change.

Base Resources has made a number of changes to workplaces as outlined below.

### Kwale Operations

The Company has implemented a suite of mitigations aimed at protecting the health and safety of our employees and neighbouring communities while operations continue. Taking note of Government of Kenya requirements, Base Resources has:

- Substantially modified workplace practices, focusing on hygiene and social distancing measures to minimise the risk of COVID-19 transmission including:
  - Reducing the number of personnel at the mine site by around 40% by introducing a "stay at home" and "work from home" policy for non-operational employees.

- Increasing the number of buses transporting employees to and from the mine site to allow for appropriate physical distancing.
- The introduction of health screening and associated protocols for all personnel prior to travelling to or entering site.
- Regular fumigation of common work areas including ablutions, crib rooms, buses and heavy mobile equipment.
- Increasing the scope of personal protective equipment required for those working in close proximity to each other.
- Worked with local authorities to ensure compliance with Government COVID-19 reduction measures while maintaining operational continuity. These include altering rosters to fit within the nation-wide curfew and securing exemptions for relevant support activities as well as modifying arrangements to comply with the Kwale and Mombasa county border travel restrictions.
- Provided the option for fly-in-fly-out (**FIFO**) employees to return to their home country, as the practicalities of serving isolation or quarantine restrictions in both Kenya and their home country have rendered roster travel impractical.
- Assisted with a number of community initiatives, including:
  - Working with the Kwale County government to distribute personal protective equipment to health workers and community-based handwashing equipment to help improve sanitation.
  - Food support programs, implemented in conjunction with local and national authorities, and local support groups, to help with the economic impact on tourism and unemployment in the Kwale region.

The Company is actively assessing further opportunities to support local communities, and Kenya more broadly.

#### Madagascar and Perth Offices

In alignment with government measures, Base Resources offices in Madagascar have been closed and employees are, subject to the requirements of their role, either working from home or staying at home. All FIFO employees have returned to their home countries.

Perth based employees are working from home.

#### KWALE OPERATIONS

Production & Sales	Mar 2019 Quarter	June 2019 Quarter	Sept 2019 Quarter	Dec 2019 Quarter	Mar 2020 Quarter
Production (tonnes)					
Ilmenite	87,179	88,789	73,808	91,406	105,035
Rutile	20,171	22,588	16,390	19,812	23,683
Zircon	6,943	7,063	6,980	7,923	9,163
Zircon low grade	172	347	466	546	780
Sales (tonnes)					
Ilmenite	81,339	99,620	60,109	106,544	87,819
Rutile	14,593	31,889	14,018	13,078	25,280
Zircon	7,260	7,968	6,713	7,090	7,377
Zircon low grade <sup>1</sup>	115	219	839	616	-

Mining operations continued steadily on the South Dune orebody with mined tonnage of 4.3Mt, lower than the last quarter's 4.6Mt. Productivity was impacted by lower face heights and reduced water pressures as some hydro mining guns approached the end of the current mining blocks and the distance from the pumping stations increased. As hydraulic mining units are re-located to new mining blocks during the coming quarter, productivity is expected to improve. Mined grade moderated during the quarter from 4.2% to 3.9% heavy mineral (**HM**) as expected.

<sup>1</sup> 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.

<b>Mining &amp; WCP Performance</b>	Mar 2019 Quarter	June 2019 Quarter	Sept 2019 Quarter	Dec 2019 Quarter	Mar 2020 Quarter
Ore mined (tonnes)	4,349,984	3,644,160	4,909,999	4,579,386	<b>4,295,645</b>
HM %	3.59	3.52	2.66	4.22	<b>3.86</b>
HMC produced (tonnes)	154,001	131,475	114,149	189,952	<b>153,754</b>

Wet concentrator plant (**WCP**) production of heavy mineral concentrate (**HMC**) declined to 154kt (last quarter: 190kt) due to lower mined tonnage and ore grades. Stocks of HMC built up last quarter were utilised to maintain a 90tph mineral separation plant (**MSP**) feed rate, reducing closing stocks of HMC to 13kt (last quarter: 46kt). Sand tails continued to be deposited into the mined-out Central Dune area. Rehabilitation works on the Central Dune and the mined-out areas of the South Dune continued.

<b>MSP Performance</b>	Mar 2019 Quarter	June 2019 Quarter	Sept 2019 Quarter	Dec 2019 Quarter	Mar 2020 Quarter
MSP Feed (tonnes of HMC)	155,373	160,766	121,600	155,217	<b>186,197</b>
MSP feed rate (tph)	78	76	67	86	<b>90</b>
MSP recovery %					
Ilmenite	104	100	103	100	<b>99</b>
Rutile	102	104	103	102	<b>99</b>
Zircon	78	76	86	88	<b>87</b>

Total MSP feed tonnage was higher than the prior quarter reflecting use of available HMC stocks and resulting in increased production of all products. Recoveries were slightly lower than prior quarters due to varying MSP feed conditions associated with managing low HMC stocks.

Bulk loading operations at the Company's Likoni Port facility continued to run smoothly, dispatching more than 110kt of bulk ilmenite and rutile and low-grade zircon during the quarter (last quarter: 116kt). Containerised shipments of rutile and zircon through the Mombasa Port largely proceeded according to plan.

<b>Summary of unit costs &amp; Revenue per tonne (US\$)</b>	Mar 2019 Quarter	June 2019 Quarter	Sept 2019 Quarter	Dec 2019 Quarter	Mar 2020 Quarter
Unit operating costs per tonne produced	\$138	\$127	\$173	\$140	\$128
Unit cost of goods sold per tonne sold	\$151	\$180	\$213	\$141	\$175
Unit revenue per tonne of product sold	\$368	\$482	\$469	\$355	\$476
Revenue: Cost of goods sold ratio	2.4	2.7	2.2	2.5	2.7

Despite higher total operating costs than the previous quarter, caused by non-cash changes to the rehabilitation and mine closure provision, the significantly increased production volume resulted in a lower unit operating cost of US\$128 per tonne produced (rutile, ilmenite, zircon and low-grade zircon) (last quarter: US\$140 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 the majority of 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\$175 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) was higher due to the increased proportion of rutile in the sales mix (last quarter: US\$141 per tonne). The higher proportion of rutile sold in the quarter contributed to an increase in both the cost of goods sold and average revenue per tonne to US\$476 per tonne (last quarter: US\$355 per tonne). From the combination of these factors, the revenue to cost of goods sold ratio for the quarter increased to 2.7 (last quarter: 2.5).

## FY20 PRODUCTION GUIDANCE

Base Resources' prevailing production guidance for the 2020 financial year (**FY20**) remains unchanged. However, due to the inherent uncertainties associated with the COVID-19 pandemic, a halt to, or curtailment of, operations at some point in the future is possible. In such an event, the Company may update or withdraw its FY20 production guidance, as appropriate in the circumstances.

Kwale Operations FY20 production guidance remains at:

- Rutile - 75,000 to 81,000 tonnes.
- Ilmenite - 335,000 to 355,000 tonnes.
- Zircon - 29,000 to 32,000 tonnes.

The above FY20 production guidance is based on the following assumptions:

- Mining of 18.7Mt at an average HM grade of 3.58%, with the remainder of the FY20 volume coming entirely from Ore Reserves<sup>2</sup>.
- Average MSP feed rate of 79tph.
- Average MSP product recoveries of 102% for rutile, 101% for ilmenite and 85% for zircon.

## MARKETING

Despite the COVID-19 pandemic, and seasonal factors, demand during the quarter for all products was firm and most customers, across the various products, market segments and regions, have advised that their facilities operated at normal levels with regular orders received from their customers.

Global pigment producers have generally indicated that demand for pigment was strong through the quarter and tight market conditions continued to prevail for sulphate ilmenite and high-grade chloride feedstocks (including rutile) resulting in further price improvement for both ilmenite and rutile. Subsequent to quarter end, some Chinese customers have advised that there is a weakening outlook for pigment exports.

Rutile demand remains strong and ongoing restricted supply is currently maintaining a tight market. The recent government-imposed interruptions to the operation of major chloride slag facilities in South Africa is expected to further restrict the supply of high-grade feedstock in 2020. The Company has firm sales contracts in place for almost all of its forecast rutile production for the remainder of calendar year 2020.

Despite COVID-19 related uncertainty over the outlook for pigment exports, Chinese pigment producers (the Company's main ilmenite customers) have re-confirmed their demand for ilmenite and their intention to proceed with planned shipments over the coming months. Tight restrictions on ilmenite supply have continued into 2020 and some customers continue to seek significant additional ilmenite volumes and earlier shipments, having expressed concern over the security of feedstock supply. A prolonged interruption to Chinese domestic ilmenite production through February 2020, due to COVID-19 shutdowns, compounded the general global shortage of available ilmenite through the quarter, which has continued into the June quarter. It is understood that ilmenite supply in India has been further impacted as a result of COVID-19 related suspensions on activity throughout the country. This will further exacerbate the global ilmenite shortage.

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<sup>2</sup> 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 9 October 2017 "2017 Kwale Mineral Resources and Ore Reserves Statement" 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.

Subdued conditions in the zircon market continued through the seasonally weak March quarter resulting in some marginal price erosion. The COVID-19 related shutdown of some operations in China during February 2020 resulted in the deferral of some shipments but concerns over security of zircon supply boosted demand towards the end of the quarter. The Company's small backlog of zircon sales, caused by these deferrals, was cleared by mid-April.

Zircon sales for the June quarter are mostly proceeding as planned at prices reasonably consistent with March quarter contracts, with firm demand from Chinese customers in particular. Demand for zircon end products is uncertain over the coming months but it is expected that any drop in demand will be offset to some extent by the restrictions on zircon supply coming from major producers in South Africa and other locations.

## **SAFETY**

With no lost time or medical treatment injuries occurring during the quarter, or in the past year, Kwale Operations' lost time injury frequency rate (**LTIFR**) and total recordable injury frequency rate (**TRIFR**) are both zero. No injuries were recorded in the quarter for the Toliara Project and the total number of injuries of any type since project commencement remains at zero. Compared to the Western Australian All Mines 2017/2018 LTIFR of 2.0, 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 19.9 million man-hours lost time injury (**LTI**) free, with the last LTI recorded in early 2014. Further, 10.5 million hours have been worked without a medical treatment injury.

## **COMMUNITY AND ENVIRONMENT**

### **Kwale Operations**

Base Resources has implemented a number of actions to assist the Kwale community manage the COVID-19 pandemic, including the distribution of personal protective equipment to county health workers and establishment of community-based handwashing equipment to help improve sanitation. Food support programs have also been put in place in conjunction with local and national authorities, and local support groups, to cater for the economic impact on tourism and unemployment.

Agricultural livelihood programs at Kwale made considerable progress during the quarter working with partners Business for Development, the PAVI farmers' cooperative, and the Cooperative Bank of Kenya. PAVI, through a joint initiative with Base Resources, secured additional funding through a Government of Kenya agribusiness support project to further build capacity and develop the cooperative.

Preparations are now underway to plant maize, sorghum, cotton, green grams, various spices and sunflower during this year's upcoming planting season. Measures have been put in place to continue to progress these activities in compliance with government restrictions implemented as a result of the COVID-19 pandemic.

With land rehabilitation activities increasing on site, community groups have continued to supply special grasses for the program and grass seed. Irrigation has also been installed to assist with germination prior to the upcoming rains which will help with erosion controls.

### **Toliara Project**

Community training programs and social infrastructure construction work remain on hold following the government-required suspension of on-the-ground activities on the Toliara Project. The 24 apprentices training in Kenya at the Kwale Operation have remained on site and are subject to restricted movements consistent with government requirements and company protocols in dealing with COVID-19. Base Resources continues to work with local authorities to assist in the response to public health challenges in the Toliara region.

## **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 progressed<sup>3</sup>. Activity remains suspended as Base Resources

<sup>3</sup> 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/>.

engages with the Government in relation to the fiscal terms applicable to the mining sector in Madagascar, including the Toliara Project. Discussions progressed positively over the quarter but have been temporarily halted due to the Government focus on and implementation of COVID-19 measures, including closing all ministries and public departments except for justice, security and health.

With the effective shutdown of Government, international travel restrictions and broader COVID-19 measures and impacts both in Madagascar and globally, it is considered clear that FID will be delayed beyond 30 September 2020, as had been contemplated in the Toliara Project definitive feasibility study (DFS) released last quarter. Given current uncertainties, it is not considered appropriate to provide formal guidance on a revised FID date until such time as there is greater clarity on the trajectory of resumption of global economic activity.

Key activities during the quarter included:

- Completion of the French translation of the DFS, required to support the Company's Large Mining Investment Law (LGIM) application.
- Commencement of front-end engineering design (FEED) activities including:
  - Processing plant engineering, mechanical and electrical equipment and preferred vendor selection.
  - Continuation of tender evaluation and preferred contractor selection for key packages including marine EPC, piling at the export facility, bridge, power and fuel supply.
  - Commencement of project control systems development.
- Commencement of lenders' due diligence with the independent technical experts (SRK and Arcadis).
- Optimisation of accommodation camp numbers, building type and layout.

Key activities planned for the coming quarter include:

- Resource planning, schedule and budget reviews in relation to the delays caused by the COVID-19 pandemic.
- Continuation of FEED activities including:
  - Completion of work on tails pumping and metallurgical changes.
  - Completion of design criteria documents, basis of design, equipment lists and specifications.
- Continued development of the Toliara Project's Environmental and Social Management System (ESMS).
- Subject to the lifting of the Government suspension and COVID-19 travel bans, re-establishing on-site activities, including:
  - Environmental baseline studies and monitoring programs.
  - Land acquisition and resettlement programs.
  - Training programs for local people ahead of planned construction.
  - Borehole drilling and additional geotechnical investigations (on and offshore) at the export facility, bridge and road to optimise designs.
  - Quarry material investigations.
  - Submission of outstanding drill samples for assay.
  - Community programs including relocation of tombs, resuming construction of schools and medical facilities, installation of solar pumping equipment into community boreholes, social economic baseline studies, human rights and health impact assessments.

Total expenditure on the Toliara Project for the quarter was US\$3.3 million (last quarter: US\$6.8 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 based on the expanded 2017 Kwale South Dune Mineral Resource announced on 4<sup>th</sup> October 2017<sup>4</sup>. However, progress has slowed as the government focuses on combating the COVID-19 pandemic.

A concept study for mining the 171Mt North Dune Mineral Resources estimate (136Mt Indicated and 34Mt Inferred)<sup>5</sup> was completed in early January 2020, with a pre-feasibility study commencing in the 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.

Further drilling of the northern sections of the Vanga Prospecting License (PL/2015/0042) remained 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 the Kwale Operation (App No/2123) remain in progress through the granting process.

Expenditure on exploration activities in Kenya during the quarter was US\$0.1 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\$19.5 million at 31 March 2020. These claims are proceeding through the Kenya Revenue Authority process with refunds totalling US\$3.1 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.

### Revolving Credit Facility

In January 2020, Base Resources repaid the outstanding US\$15.0 million balance of its Revolving Credit Facility (RCF).

In late March, the Company drew down the full US\$75.0 million available under the RCF to secure enhanced liquidity and provide flexibility as part of a prudent management strategy in navigating the evolving uncertainty associated with the COVID-19 pandemic.

*In summary, at 31 March 2020:*

- Net cash of US\$44.4 million, consisting of:
  - Cash and cash equivalents of US\$119.4 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 exercise<sup>6</sup>.
  - 62,639,934 unvested performance rights, which are subject to performance testing in accordance with their terms of issue.

<sup>4</sup> Refer to Base Resources' market announcement "Mineral Resource Increase for Kwale South Dune" released on 4 October 2017, which is available at <https://baseresources.com.au/investors/announcements/>.

<sup>5</sup> For further information on the Kwale North Dune Mineral Resources estimate, refer to Base Resources' market announcement "Mineral Resource for Kwale North Dune deposit" released on 1 May 2019, which is available at <https://baseresources.com.au/investors/announcements/>. Base Resources confirms that it is not aware of any new information or data that materially affects the information included in the 1 May 2019 announcement and all material assumptions and technical parameters underpinning the estimates in the 1 May 2019 announcement continue to apply and have not materially changed.

<sup>6</sup> Vested performance rights have a nil cash exercise price and, unless exercised beforehand, these rights expire on 30 September 2024.

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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](http://www.baseresources.com.au).