Quarterly Activities Report – September 2016

13 October 2016

HIGHLIGHTS

- 50% increase in Ilmenite prices in the quarter, with further price increase locked in for contracted December quarter sales.
- Strong production result with record volumes in rutile and ilmenite, driven by a 5% increase in Mineral Separation Plant throughput.
- Successful commissioning of a 400tph hydraulic mining unit.
- No lost time injuries.
- Updated Mineral Resources and Ore Reserves estimate announced.
- Extensive Tanzanian exploration licenses granted, within 100km of the Kwale Operations.
- Maiden cash "sweep" from the Kwale Operations.
- Net debt reduced to US$147.6 million.

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, East Africa. Production for the quarter was characterised by further increases in plant throughput and continued cost control discipline. A strong sales performance reflects the continuing improvement in titanium markets.

KWALE OPERATIONS

SUMMARY PHYSICAL DATA	Sept 2015 Quarter	Dec 2015 Quarter	Mar 2016 Quarter	June 2016 Quarter	**Sept 2016 Quarter**
Ore mined (tonnes)	2,327,361	2,101,295	2,410,503	2,363,395	**2,255,139**
HM%	9.66%	4.31%	8.96%	9.87%	**7.51%**
HMC produced (tonnes)	210,104	88,087	209,787	226,453	**164,192**
HMC consumed (tonnes)	170,258	176,717	175,224	187,244	**193,349**
MSP feed rate (tph)	82	84	86	88	**92**
Production (tonnes)					
Ilmenite	116,121	109,649	110,760	119,340	**121,821**
Rutile	20,926	21,768	21,194	21,766	**22,458**
Zircon	6,546	7,507	7,865	9,471	**9,050**
Sales (tonnes)					
Ilmenite	130,608	103,035	95,984	150,911	**139,441**
Rutile	14,686	23,896	14,500	32,454	**23,023**
Zircon	6,193	7,723	9,556	9,590	**8,525**

Mining operations successfully commissioned and operated a 400 tonnes per hour ("**tph**") hydraulic mining unit ("**HMU**") in the quarter, allowing concurrent mining of higher grade ore with the existing dozer trap mining unit ("**DMU**") while the HMU mines the thinner, lower grade perimeter blocks. As a result, the average blended mined ore grade declined to 7.51% heavy mineral ("**HM**") and is expected to remain around these levels in coming quarters.

In addition to cost benefits in the mining of perimeter low grade blocks with the HMU, the combination of operating both mining units, and the resultant higher mining rates that can be sustained, allows the better utilisation of the capacity of the wet concentrator plant ("**WCP**"). Limits on the volume of heavy mineral concentrate ("**HMC**") production possible from the WCP, has, in the past, required mining rates to be constrained when in high grade ore. The lower blended mined ore grade from the dual mining units allows higher mining rates to be achieved before reaching the maximum HMC production limit.

Kwale Operations processing plants

As a result of the lower average blended mined ore grade, in concert with variability over the quarter which saw WCP throughput constraints reached at times, overall WCP production of HMC was lower than recent quarters. The HMC stockpile, built up in prior quarters to accommodate the planned mining sequence and ore grades, was drawn down by 29kt as mineral separation plant ("**MSP**") consumption increased due to further improvements in plant throughput.

The tailings storage facility ("**TSF**") wall stacking, lining and slimes deposition continued to proceed to plan. The Mukurumudzi Dam volume dropped from 6.8 gigalitres ("**GL**") to 5.8GL during the quarter with little rain experienced. The 'short rains' in the December quarter should provide a further opportunity to replenish water levels.

MSP optimisation during the quarter continued to focus on increasing throughput, achieving an average feed rate of 92tph whilst maintaining a high availability of 96% (97% last quarter). The higher throughput rates have had a minor impact on product recoveries and the required re-optimisation and de-bottlenecking is underway to return all recoveries to their previous levels.

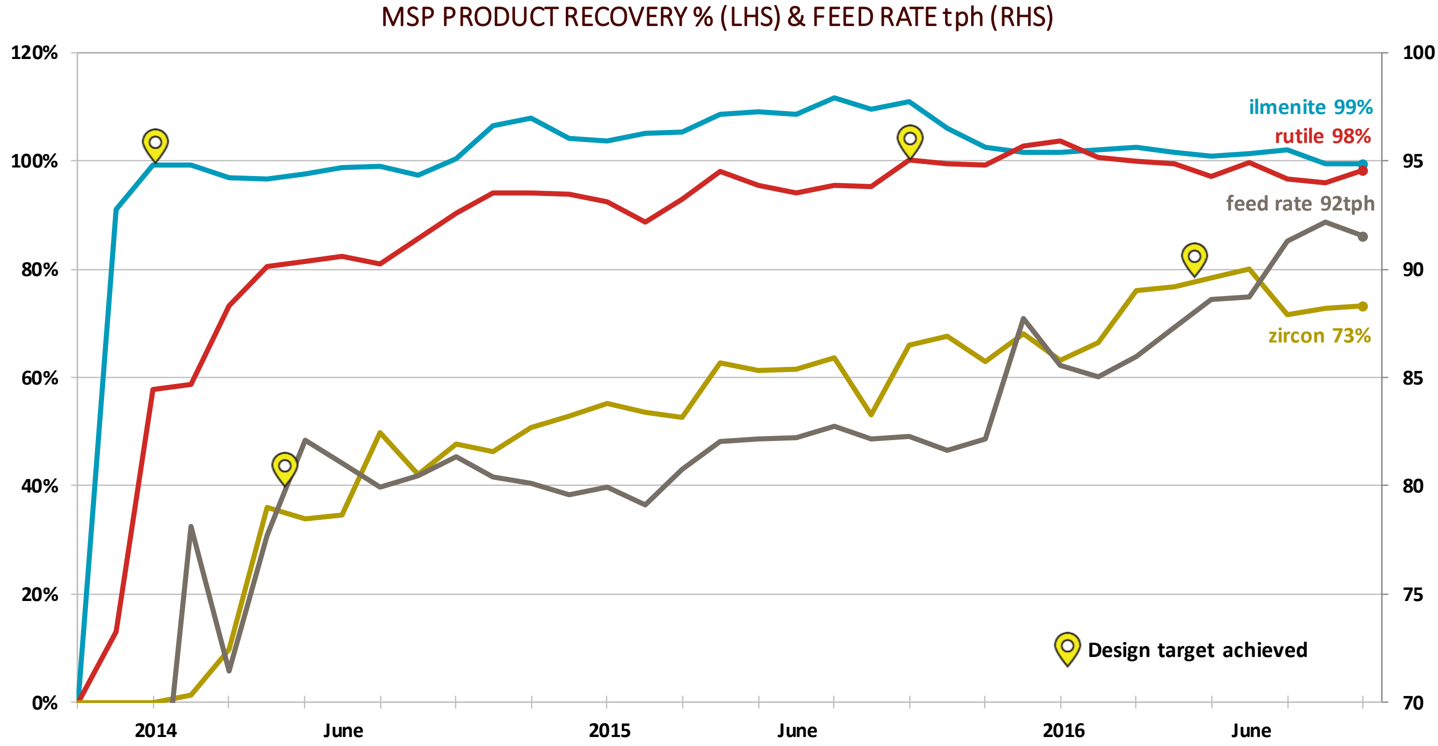
Rutile production set a new quarterly record of 22.5kt (21.8kt last quarter), due to the higher MSP throughput, despite lower average recoveries of 97% (99% last quarter). Re-optimisation of the rutile circuit at the higher MSP feed rates is expected to improve recoveries over the December quarter.

Ilmenite production also achieved a new quarterly record, rising to 122kt (119kt last quarter) as a consequence of the higher MSP throughput achieved. Average recoveries for the quarter were 100%, slightly lower than the previous quarter's 101%[1].

Zircon production for the quarter was slightly lower at 9,050t (9,471t last quarter), reflecting a lower average zircon recovery of 73% (78% last quarter). The lower recoveries were the direct result of circuit optimisation modifications undertaken during the period, necessitated by the higher MSP feed rate, and some electrical voltage instability that resulted

[1] 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.

in repeated stoppages in the wet zircon circuit. With modifications largely complete, re-optimisation of the zircon circuit at the higher MSP feed rates is expected to improve recoveries over the December quarter.



Bulk loading operations at Base Resources' Likoni Port facility continued to run smoothly, dispatching more than 155kt of ilmenite and rutile during the quarter (175kt 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 2015 Quarter	Dec 2015 Quarter	Mar 2016 Quarter	June 2016 Quarter	Sept 2016 Quarter
Unit operating costs per tonne produced	$86	$90	$84	$93	$78
Unit cost of goods sold per tonne	$80	$123	$106	$111	$91
Unit revenue per tonne of product sold	$172	$245	$208	$208	$200
Revenue : Cost of goods sold ratio	2.2	2.0	2.0	1.9	2.2

Continued tight cost control and increased production volumes combined to record the lowest unit operating cost yet achieved of US$78 per tonne produced (rutile, ilmenite and zircon) (US$93 per tonne last quarter). Cost of goods sold of US$91 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) were lower than last quarter (US$111 per tonne sold) due to operating cost savings and 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 10-12kt each, which means any given quarter will contain either one or two of these sales (or even three in exceptional circumstances, as was the case in the June quarter). As annual rutile sales account for approximately 50% 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 saw a single 20kt bulk rutile sale and total rutile sales of 23kt, lower than the prior quarters 32kt total rutile sales, which, when combined with high volume of ilmenite sales in the quarter, contributed to the fall in average revenue per tonne to US$200 per tonne (US$208 last quarter). However, achieved increases in ilmenite sales prices during the quarter ensured the average revenue per tonne sold remained relatively high and resulted in the revenue to cost of sales ratio increasing to 2.2 (1.9 last quarter).

FY2017 PRODUCTION GUIDANCE

Kwale Operations production guidance for financial year 2017 ("**FY17**") remains unchanged at:

- Rutile - 88,000 to 95,000 tonnes.
- Ilmenite – 450,000 to 480,000 tonnes.
- Zircon –35,000 to 40,000 tonnes.

The above production targets are based on the following assumptions for FY17:

- Mining of 10.2 million tonnes ("**Mt**") at an average HM grade of 6.95%, all from Ore Reserves[2].
- MSP feed rate at an average of 91tph, consistent with recent performance.
- MSP product recoveries of 102% for ilmenite and 100% for rutile, and 78% for zircon, consistent with past performance.

2016 MINERAL RESOURCES & ORE RESERVES UPDATE

On 11 October 2016, updated Kwale Mineral Resources and Ore Reserves estimates were announced.[3] The 2016 Kwale Mineral Resources estimate is the product of revised geological interpretations following the mineralogical assessment of 1,718 individual drill samples (compared to the 71 composite samples previously used), observation of 5 test pits in the South Dune deposit and knowledge gained from mining.

The 2016 Kwale Mineral Resources as at 30 June 2016, are estimated to be 134.6Mt at an average HM grade of 4.2% and 26% slimes containing 5.62Mt HM, based on a 1% HM cut-off grade. The 2016 Kwale Mineral Resources estimate represents a small increase of 1% for total material tonnes and 2% for contained HM tonnes over the previously reported 2015 Kwale Mineral Resources estimate, after allowing for depletion by mining during the year.

Contained within the Mineral Resources, the Ore Reserves are estimated to be 102.5Mt at an average HM grade of 4.6 per cent as at 30 June 2016. The 2016 Kwale Ore Reserves estimate represents a small increase of 2% in total ore tonnes and negligible change in contained HM tonnes over the previously reported 2015 Kwale Ore Reserves estimate, after allowing for depletion by mining during the year.

MARKETING

The ongoing strength of the Northern Hemisphere summer 'painting season' has driven continued firm improvement in the TiO_2 pigment market throughout the September quarter. TiO_2 pigment prices continued their upward trend through the quarter with expectations that further price improvement would occur through, or at least into the early stages of, the December quarter. Most of the major Chinese pigment producers have thus far announced ten consecutive price increases throughout the course of calendar year 2016.

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[2] The Ore Reserves estimates underpinning the above production targets were prepared by competent persons in accordance with the JORC Code 2012. 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.

[3] Ore Reserves and Mineral Resources are reported in accordance with the JORC Code (2012 edition). Refer to the "2016 Mineral Resources and Ore Reserves Update for Kwale" released on 11 October 2016, which is available at http://www.baseresources.com.au/investor-centre/asx-releases/. Base Resources confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of Mineral Resources and Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the original market announcement continue to apply and have not materially changed. Base Resources further confirms that the form and context in which the findings of the Competent Persons are presented have not been materially modified from the original market announcement.

TiO_2 feedstock consumption increased throughout the quarter on the back of firming pigment production and ongoing re-stocking activity within the downstream supply-chain. This improved demand resulted in another very strong sales quarter for Base Resources' ilmenite and rutile. Prices for Base Resources' ilmenite have increased by approximately 50% between May and September 2016. The Company has now contracted all ilmenite production through to November 2016 and has secured further step price increases for these forward sales.

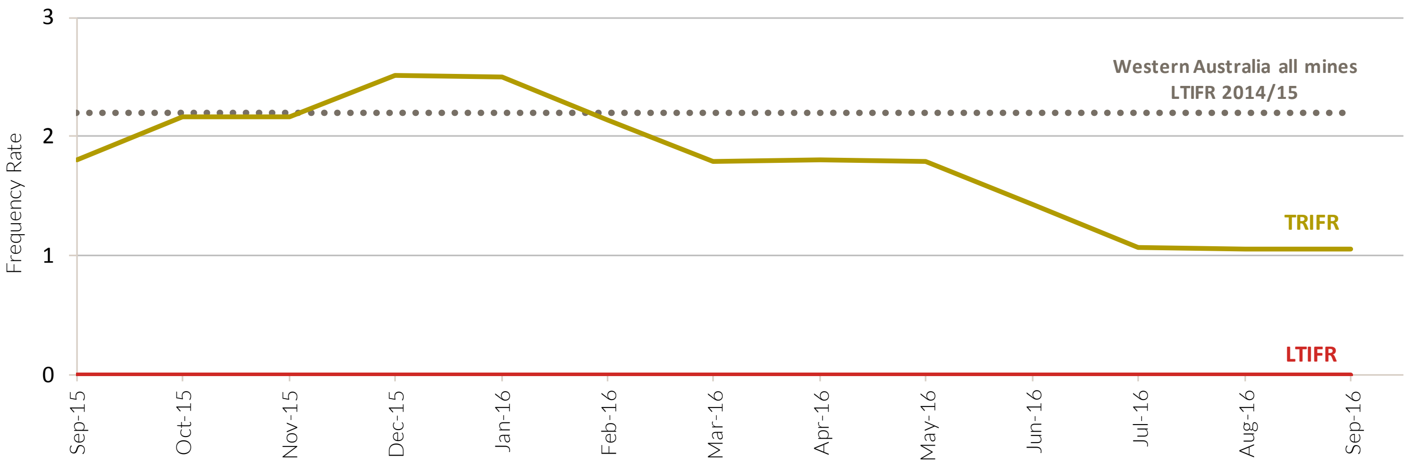
Despite the improvement in demand, the surplus of high grade TiO_2 feedstock (including rutile) evident through the first half of 2016, has restrained price growth in the year to date. However, higher than expected offtake by major consumers during calendar year 2016 has resulted in a balancing of supply and demand. Base Resources' expectation is for rutile prices to begin moving upwards late in the December quarter or early in the March quarter 2017.

Demand for zircon remained solid for the quarter, resulting in strong sales for Base Resources and stocks being maintained at minimum levels. Although overall conditions for zircon consumption remain sluggish, one major zircon producer appears to have reached low inventory levels and another major producer continues to manage supply in an effort to support market price improvement. Zircon prices are, therefore, considered likely to see some marginal improvement in the transition into the December quarter. If realised, this would represent the first upward movement in zircon pricing since Kwale Operations commenced production in 2014. Any sustained material improvement in zircon prices is unlikely to occur until surplus production and inventories are fully absorbed throughout the supply chain.

SAFETY & TRAINING

With no serious injuries occurring during the quarter, Kwale Operations' LTIFR remains at zero. Base Resources employees and contractors have now worked 7.3 million man-hours LTI free, with the last LTI recorded in the March quarter of 2014. A constant focus on lead safety indicators and positive safety behaviours resulted in zero medical treatment injuries during the quarter, representing the third consecutive quarter of such performance.

Lost time injury (LTIFR) and total recordable injury (TRIFR) frequency rates



COMMUNITY AND ENVIRONMENT

Agricultural livelihood programmes, run in conjunction with partners Business for Development, DEG, FMO and Kenya Red Cross, continue to develop with encouraging support from both national and county Kenyan governments. These programmes, covering cotton, potato and poultry, now involve around 400 farmers and community groups with the ultimate aim being to establish new large scale agricultural industries that will provide economic opportunities well beyond the life of mining activities.

Both national and county Kenyan governments continue to increase their involvement in the cotton programme as part of a long term revitalisation initiative aimed at increasing the economic returns from the cotton value chain. A workshop held in Kwale to chart the way forward for reinvigorating the industry, brought together various stakeholders including Cotton On, an Australian garment retailer, the Kenyan Fibre Crop Directorate, farmers' representatives from Kwale and Lamu counties, certification agencies and representatives from Kenya's leading ginnery.

The current cotton crop is growing well with good results anticipated from the harvest expected in the next quarter.

Potato harvesting in the quarter delivered good results together with important learnings about the marketing process derived by the farmers' co-operative.

The poultry program continues to be rolled out with the second batch of dual-purpose hatchlings received, with distribution to participating farmers expected before the end of 2016, to enhance protein requirements and income generation. This programme is showing potential to be an important contributor to women's livelihoods in the area. Over 1,000 broilers are being reared by a local youth organisation which will be processed in the next quarter and marketed to local restaurants and hotels.

Construction of the blood bank at Msambweni Referral Hospital is nearing completion with some ancillary components and equipment to be provided by other donors and the Kwale County Government. This facility was identified as one of the most critical components for delivering improved health services in both the Kwale County health development plan and Base Resources' Health Impact Assessment.

During the quarter, Base Resources was pleased to receive recognition from the Kenya Red Cross for special contributions and exemplary service in alleviating human suffering in Kenya and, for the second year running, was the recipient of the Total EcoChallenge Award for spearheading environmental conservation.

BUSINESS DEVELOPMENT

EXTENSIONAL EXPLORATION - KENYA

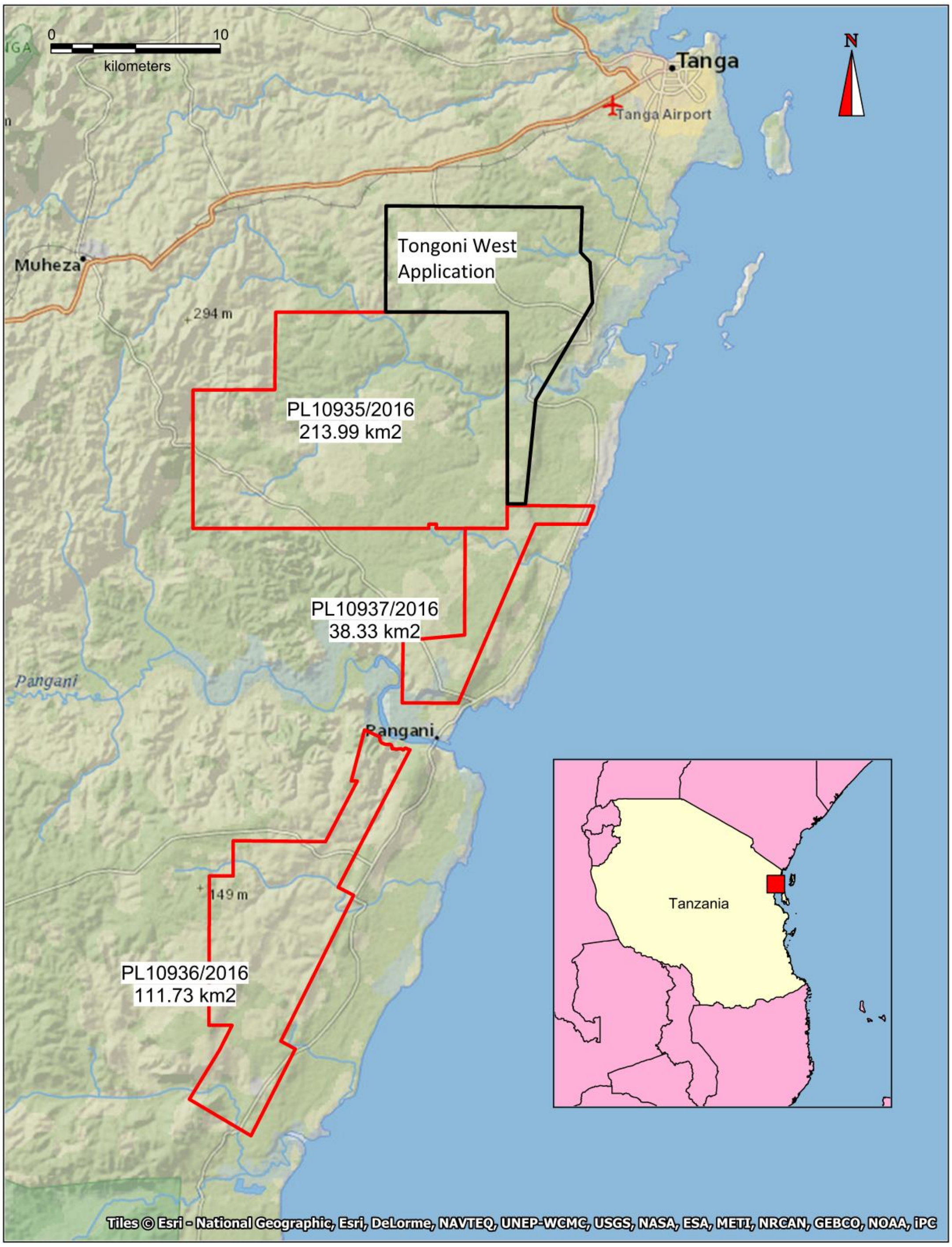
A successful airborne geophysics program, conducted in 2015, covering the south coast region of Kenya from Mombasa to the Tanzanian border, identified a series of exploration targets that were subsequently confirmed through ground reconnaissance.

To capitalise on the targets identified, the Company has significantly expanded its exploration land area surrounding the Kwale Operations, through the extension of its Special Prospecting License 173 ("**SPL173**"), which now covers an area of 177km^2. In addition, the Company has also applied for an additional SPL covering an area of 136km^2 extending south west from SPL 173 towards the Tanzanian border. This license application is advancing through the granting process having been approved by the licensing committee of the Kenyan Ministry of Mining. Up to an 18,000 metre aircore drill program is planned over both these licenses and is expected to be completed over the coming year.

Extensive and systematic stakeholder engagement has been carried out to sensitise all interested parties to future exploration activities and obtain informed consent and access to the target drill sites with broad, albeit not universal, community and land owner support achieved to date. Significant engagement activity is ongoing with a view to commencing drilling during the December quarter.

EXPLORATION - TANZANIA

In early October 2016, the Company secured exploration tenure over a significant land area in northern Tanzania with the approval of three licenses with a combined area of 364km^2. The area was identified through a prospectivity review and subsequent reconnaissance work on the ground to confirm these findings. A fourth exploration license is also under application. The exploration licenses lie approximately 50km south of the Kenyan border and 100km from Base Resources' Kwale Operations.



Tanzanian exploration licenses granted or under application

KWALE PHASE 2 PROJECT

Base Resources initiated the Kwale Phase 2 project in 2015 with its focus being an optimised mining methodology, increased mining rates in lower grade zones and increased concentrate production. The Pre-Feasibility Study was completed in July 2016, and based on the potential value Kwale Phase 2 can add to the Kwale Operations, a Definitive Feasibility Study has commenced, scheduled for completion in the June quarter of 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 million at 30 September 2016. These claims are proceeding through the Kenya Revenue Authority process, with a number of 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.

ACCELERATED DEBT REPAYMENT FROM SURPLUS CASH

On 14 July 2016, and in accordance with the terms of the Kwale Operation Debt Facility, US$10.8 million of surplus cash was 'swept' from the Kwale Operation. Half of the cash sweep (US$5.4 million) went towards mandatory repayment of the Kwale Operation Debt Facility, with the other half distributed up to the group's Australian parent entity, Base Resources Limited. From the cash sweep portion received by Base Resources, a mandatory 50% (US$2.7 million) was applied to repayment of the Taurus Debt Facility with the balance available for general corporate funding.

In summary, at 30 September 2016:

- Net debt of US$147.6 million, consisting of
  - Cash and cash equivalents were US$22.7 million (unrestricted) and an additional US$22.1 million (restricted – debt service reserve account).
  - Debt of US$192.4 million, following a US$8.1 million accelerated debt repayment from surplus cash 'swept' from the Kwale Operation on 14 July 2016.
- 732,231,956 shares on issue.
- 61,425,061 options (exercise price of A$0.40, expiring 31 December 2018).
- 62,527,889 performance rights issued pursuant to the terms of the Base Resources Long Term Incentive Plan.

ENDS.

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