

ASX, AIM and Media Release
31 October 2023

Quarterly Activities Report – September 2023

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 2023.

KEY POINTS

- Prices for ilmenite and rutile improved, while zircon prices softened on sluggish demand.
- Mineral separation plant transitioned from continuous operation to campaign processing, as planned, to ensure optimum product recoveries are maintained as lower ore grades over the remainder of Kwale Operations' mine life constrain HMC production.
- Kwale East Phase 2 air core drilling program was discontinued after an evaluation of the drill results to date concluded there is unlikely to be sufficient volume or heavy mineral grade to support an economically viable mining development.
- A new Mining Code has come into effect in Madagascar with fiscal provisions not materially out of step with Toliara Project DFS assumptions.
- Engagement with the Government on Toliara Project fiscal terms and lifting of the project's on-ground suspension has been limited, principally due to preparations for the upcoming Presidential elections. The incumbent President has declared his candidacy and officially resigned on 9 September 2023.

KWALE OPERATIONS

Operational performance

The Kwale South and North Dunes continued to be mined concurrently during the quarter, with two hydraulic mining units operating in each area. Mined tonnage was steady at 4.1 million tonnes (**Mt**) (last quarter: 4.1Mt). Mining rates in the North Dune improved during the quarter after the water pressure for one of the hydraulic mining units was boosted from the standard 25 bar to 32 bar. A second higher pressure hydraulic mining unit will be commissioned when mining commences on the Bumamani deposit in the March quarter of 2024. Consistent with mine plan, the heavy mineral (**HM**) grade of ore mined in the quarter was lower than last quarter at 2.5% (last quarter: 3.0%), and consequently, heavy mineral concentrate (**HMC**) production was lower at 84.8kt (last quarter: 103.2kt).

As ore grades and HMC production will be lower for the remainder of Kwale Operations' mine life, the mineral separation plant (**MSP**) was transitioned, as planned, from continuous operations to campaign processing to ensure optimum product recoveries are maintained, with extended shuts between campaigns to allow HMC stocks to rebuild. The combination of lower HMC production and MSP shuts reduced the HMC fed to the MSP in the quarter to 71.6kt (last quarter: 106.1kt), resulting in a corresponding fall in production for all products.

Deposition of sand tails into the mined out North Dune pit P199 commenced in the quarter, with sand tails also continuing to be deposited on the mined-out Central Dune area. To aid water retention and subsequent rehabilitation, the sand tails are capped with a co-disposed slimes/sand layer. Rehabilitation activities on the Central Dune, South Dune and North Dune proceeded to plan.

SUMMARY BY QUARTER	FY23				FY24
	SEP	DEC	MAR	JUN	SEP
Mining (million tonnes)					
Ore mined	4.4	4.5	3.3	4.1	4.1
HM %	3.8	4.0	3.9	3.0	2.5
VHM %	2.9	3.1	3.1	2.3	1.9

Production (thousand tonnes)					
Ilmenite	86.0	84.5	71.6	55.5	38.8
Rutile	18.9	19.5	16.6	13.8	9.6
Zircon	6.6	7.4	6.4	5.5	3.8
Low grade products ¹	5.7	5.2	4.1	3.4	2.0

Bulk shipping operations at the Company's Likoni export facility continued to run smoothly, albeit at significantly lower volumes with 11.0kt of bulk ilmenite dispatched (last quarter: 89.5kt). Containerised shipments of rutile and zircon through the Mombasa Port also proceeded to plan. Despite lower production levels for the remainder of Kwale Operations' mine life, the Company plans to continue bulk shipments of ilmenite (up to 54kt lots) and rutile (between 5-10kt lots), which will result in greater volatility in quarterly sales volumes, as illustrated by the sales volumes for this quarter.

Unit operating costs have increased to US\$343 per tonne produced (rutile, ilmenite, zircon and low-grade products) (last quarter: US\$240 per tonne) due to the lower production. Despite this, total cash operating costs of US\$18.6 million were marginally lower than the prior quarter (last quarter: US\$18.8 million).

Cost of goods sold increased to US\$442 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) due to the higher unit operating costs and product sales mix (last quarter: US\$263 per tonne), which also drove an increase in the average unit revenue US\$1,029 per tonne (prior quarter: US\$695 per tonne). Consequently, the revenue to cost of goods sold ratio for the quarter decreased to 2.3 (last quarter: 2.6).

FY23 production and FY24 production guidance

Kwale Operations FY24 production guidance is unchanged and remains as follows²:

- Rutile – 35,000 to 41,000 tonnes.
- Ilmenite – 130,000 to 160,000 tonnes.
- Zircon – 13,000 to 16,000 tonnes.

MARKETING

Market conditions became increasingly challenging through the September quarter due to growing economic uncertainty and softening property sectors across all key markets. However, firm demand continued for Base Resources' products through the quarter and sales were in line with expectations. Prices held up well for ilmenite and rutile, but zircon prices moderated due to the sluggish conditions that emerged during the latter part of the June quarter.

Ilmenite demand and prices in China remained relatively stable through the quarter as major Chinese pigment plants maintained high levels of production. The domestic pigment market in China was subdued through most of the quarter but saw a seasonal improvement towards the end of the quarter. Export opportunities for Chinese pigment producers increased through the quarter as significant pigment production capacity in Taiwan and Europe was closed. Chloride pigment producers in China, which are reliant on imported ilmenite, continued to build and ramp up new production capacity which supported demand for Base Resources' ilmenite.

Major western pigment producers have continued to sacrifice sales volumes to support stable prices and, as a result, production rates

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.

² Refer to Base Resources' announcement on 26 June 2023, "FY24 Production Guidance – Kwale Operations", for the assumptions upon which the guidance is based.

	FY23				FY24
	SEP	DEC	MAR	JUN	SEP
US\$ per tonne					
Sales revenue	\$714	\$651	\$637	\$695	\$1,029
Operating costs	\$154	\$165	\$190	\$240	\$343
Cost of goods sold	\$200	\$191	\$195	\$263	\$442
Revenue: Cost ratio	3.6	3.4	3.3	2.6	2.3
Sales (thousand tonnes)					
Ilmenite	62.6	74.1	86.2	74.6	11.1
Rutile	14.2	14.7	15.2	19.6	5.5
Zircon	6.2	5.0	7.4	6.6	3.9
Low grade products ¹	4.5	4.7	5.3	3.2	2.0

were well below capacity levels to avoid a build-up of inventory and demand for high-grade titanium dioxide feedstocks was consequently reduced. While one major high-grade feedstock producer has suspended production of synthetic rutile for at least four months, which will assist in offsetting the drop in demand, downward pressure on rutile prices is expected to continue building.

Rutile demand from the smaller welding and titanium metal sectors remained firm in the quarter. Sales into these sectors command a significant price premium over bulk rutile for the TiO₂ pigment market, but this premium is expected to reduce as some high-grade feedstock supply to the pigment sector is re-directed to these sectors. Base Resources is maintaining its approach of increasing the proportion of its rutile sales to the welding sector.

The weakening conditions in the Chinese and European zircon markets towards the end of the June quarter led to a reduction in contracted zircon prices for September quarter. Global demand for zircon has continued to soften through the quarter and prices will moderate further for December quarter contracts.

SUSTAINABILITY

Health and safety

There were no lost time injuries during the quarter and, with no lost time injuries in the past 12 months, Base Resources has a lost time injury frequency rate (LTIFR) of 0.0 per million hours worked. Compared to the Western Australian All Mines 2020/2021 LTIFR of 2.0, this is an exceptional performance and reflects the ongoing focus and importance placed on safety. With no medical treatment injuries recorded in the last 12 months, Base Resources' total recordable injury frequency rate is 0.0 per million hours worked.

Community and environment – Kwale Operations

Farmers participating in the Company's agricultural livelihood programs in Kwale County, implemented through the PAVI farmers' cooperative, commenced harvesting of cotton and maize crops towards the end of the quarter and are also commencing preparations for what is expected to be a successful growing season, with above average rainfall forecast for the December quarter's 'small rains' as an El Nino weather pattern develops.

Training on business, entrepreneurship and leadership was delivered to 21 women's groups during the quarter, with the approximately 350 participants also receiving support from the Company for various income generating initiatives.

The 'long rains', which normally run April to June, extended well into the September quarter allowing a further 30,000 trees to be planted as part of the Company's rehabilitation efforts, bringing the total planted for the rainy season to 80,000 trees. No instances of environmental non-compliance, major environmental incidents or environment-related community complaints were identified or recorded during the quarter.

Community and environment – Toliara Project

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

BUSINESS DEVELOPMENT

Toliara Project development – Madagascar

Engagement with the Government of Madagascar on Toliara Project fiscal terms and lifting of the project's on-ground suspension has been limited during the quarter, principally due to the Government focus on preparations for the upcoming Presidential elections.

The new Mining Code was recently passed into law and now applies to the Company's Toliara Project. Key financial elements of the new Mining Code relevant to the Toliara Project are:

- Increase in royalty rate from 2% to 5%. A reduction of 30% is applied to the 5% royalty in the event the products are locally "transformed", the definition and application of which are unclear. The Toliara Project Updated Definitive Feasibility Study (DFS2) completed on 27 September 2021 assumed a 4% royalty rate.
- A contribution to the "Mining Fund for Community and Social Investment" equal to 3% of the direct investment amount. The term "direct investment" is not defined and the applicability of this contribution requirement to the Toliara Project is unclear.

If this requirement were to apply to the Toliara Project, based on the DFS2 Stage 1 CAPEX of US\$520 million, this would require a contribution of US\$15.6 million.³ DFS2 assumed an upfront community development spend of US\$10 million.

The application of the above elements, and several other key provisions of the new Mining Code, lack sufficient detail to fully assess their potential impact on the Toliara Project. Other provisions that may impact the project include any prescribed specifications (conditions) attaching to the project's exploitation permit 37242, minimum requirements for the project's corporate social responsibility plan (which will include social investment, infrastructure spending and local content requirements), prescribed annual mining fees and requirements for an environmental and rehabilitation provision.

The Government is preparing the Implementing Decree for the new Mining Code, a draft of which should shortly be available for industry consultation. Greater clarity on the new Mining Code and its application to the Toliara Project is expected once the Implementing Decree is finalised together with any further supporting regulations, orders and decrees.

Separately, the first round of the Presidential elections have been deferred by a week to 16 November 2023, with the second round (if needed) scheduled for 20 December 2023. The incumbent President has declared his candidacy and officially resigned on 9 September 2023 to commence campaigning.

Until the full suite of Mining Code reform is completed and elections finalised, the Company does not expect to achieve material progress in securing fiscal terms or lifting of the project's on-ground suspension. The Company remains ready and committed to progressing the world class Toliara Project to a final investment decision once fiscal terms are secured and the on-ground suspension is lifted.

The Toliara Rare Earths Pre-Feasibility Study of the economic potential of the monazite contained in the Toliara Project's Ranobe Mineral Resources estimate continued in the quarter and remains on track for completion in the March quarter of 2024.

Total expenditure on the Toliara Project and Toliara Rare Earths Pre-Feasibility Study for the quarter was US\$2.4 million (last quarter: US\$2.0 million).

Extensional exploration – Kenya

The Company released progress results from the first phase auger drilling program (**Phase 1**) at the Kwale East exploration project⁴ (within Prospecting Licence 2018/0119) at the start of the quarter. A total of 1,019 holes for 11,536.5 metres was completed, with the results confirming the presence of HM, as well as a high value mineral assemblage. A second phase air core drilling program (**Phase 2**) targeting the three areas of mineralisation identified during Phase 1 – Magaoni, Masindeni and Zigira – was also undertaken during the quarter. In total for Phase 2, 65 holes for 1,054.5 metres were completed in the Magaoni and Zigira target area, resulting in 703 samples. The Phase 2 drilling assay results were released subsequent to the quarter end.

Exploration activities at Kwale East have been discontinued following an evaluation of the likely mineralisation for the three targets using the results from both Phase 1 and Phase 2 drill programs and applying optimistic assumptions on the continuity of mineralisation in the Magaoni and Zigira target areas that were not able to be drilled. Even on these optimistic assumptions, the evaluation concluded that there is unlikely to be sufficient volume or heavy mineral grade to support an economically viable mining development.⁵

Subsequent to the quarter end, Kenya's Department of Mining announced the partial lifting of the moratorium on issuance of mining rights for all construction and industrial minerals, including heavy mineral sands. All other minerals have been classified as strategic minerals and mining rights shall be processed on a case-by-case basis in accordance with Kenyan Mining Regulations. Base Resources is now engaging with the Kenya Department of Mining to understand the process for progressing its eight prospecting licence applications in Kwale, Kuranze and Lamu regions, most of which were lodged prior to the decision to implement the moratorium in 2019.

³ For further information about DFS2, refer to Base Resources' announcement on 27 September 2021 "DFS2 enhances scale and economics of the Toliara Project" available at <https://baseresources.com.au/investors/announcements/>. Base Resources confirms that all the material assumptions underpinning the production information and forecast financial information disclosed in that announcement continue to apply and have not materially changed.

⁴ For further information, refer to Base Resources' announcement on 3 July 2023 "Kwale East exploration drilling update" available at <https://baseresources.com.au/investors/announcements/>. Base Resources confirms that it is not aware of any new information that materially affects the information included in that announcement.

⁵ For further information, refer to Base Resources' announcement on 30 October 2023 "Kwale East - Exploration update" available at <https://baseresources.com.au/investors/announcements/>. Base Resources confirms that it is not aware of any new information that materially affects the information included in that announcement.

Expenditure on exploration activities during the quarter in Kenya was US\$303k (last quarter: US\$389k).

Extensional exploration – Tanzania

The Umba South Project in northern Tanzania is located approximately 75km west-south-west of the Company's Kwale Operations in Kenya. Exploration at Umba South was designed to test the southern extremity of a prominent north-south trending ridge of quartzite and gneiss that extends 35km north to the Kuranze region of Kenya, where initial rock chip and soil sampling indicated the presence of rutile. Exploration activity in this area has so far been confined to areas south of the Umba River, while the Company seeks to obtain the necessary approvals from various government departments to explore in the Mkomazi Game Controlled Area to the north which hosts the target ridge feature extending north to the Kenyan border.

Results from the first phase reconnaissance exploration program were released in the June quarter⁶. Three primary geological domains were observed - a soil/colluvial cover sequence, underlying saprolite material and bedrock. While rutile mineralisation was present in each domain, factors unique to each domain were identified which would be expected to limit any significant economic potential.

A second phase infill program to assess the continuity of rutile mineralisation in the saprolite layer was completed in the March quarter with 86 holes for 2,128 metres drilled. Assaying of these drill samples has commenced at the Kwale Operations laboratory and is approximately 50% complete as assay priority was given to Kwale East exploration drill samples. The results, which are expected in the December quarter, will assist in planning future exploration activity at Umba South and elsewhere along the prospective geological zone, including the Kuranze region of Kenya once necessary land access approvals are obtained.

Expenditure on exploration activities during the quarter in Tanzania was US\$32k (last quarter: US\$101k).

CORPORATE

Following release of the Company's full-year results for the 2023 financial year (**FY23**) and disciplined application of the Company's capital management policy, a final dividend of AUD 4.0 cents per share (unfranked) was paid to shareholders on 28 September 2023, representing a cash payment of US\$29.9 million (in aggregate). Total dividends in respect of FY23 were AUD 6.0 cents per share (unfranked), equal to US\$45.5 million (in aggregate).

As at 30 September 2023, the Company had cash of US\$77.2 million and no debt.

The Company currently has the following securities on issue:

- 1,178,011,850 fully paid ordinary shares.
- 43,327,165 performance rights issued pursuant to the terms of the Base Resources Long Term Incentive Plan, comprising:
 - 8,727,959 vested performance rights, which remain subject to exercise⁷; and
 - 34,599,206 unvested performance rights subject to performance testing in accordance with their terms of issue.

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⁶ For further information, refer to Base Resources' announcement on 8 May 2023 "Tanzanian exploration – Umba South Phase 1 drill results" available at <https://baseresources.com.au/investors/announcements/>. Base Resources confirms that it is not aware of any new information that materially affects the information included in that announcement.

⁷ Vested performance rights have a nil cash exercise price. Unless exercised beforehand, these rights expire five years after vesting.

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.