

Quarterly Activities Report – June 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 June 2023.

KEY POINTS

- FY23 production guidance achieved and FY24 production guidance released.
- Prices were steady for ilmenite and slightly lower for rutile, while zircon prices moderately increased.
- Mining volumes increased to 4.1Mt following a stoppage in the prior quarter for the transition of half the mining operations to the North Dune.
- Exploration drill results from Kwale East confirmed the presence of heavy mineral, with a peak drill hole grade of 6.3% heavy mineral, as well as a high value mineral assemblage. Three areas were identified for further targeted exploration as part of a second phase air core drilling program.
- Results from the first phase of drilling at the Umba South exploration project in Tanzania confirmed rutile mineralisation was present but a number of factors were identified limiting the project's economic potential, with further exploration activity paused pending receipt of assay results from a second phase infill drilling program.
- 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 due to the Government focus on an overhaul of the Malagasy Mining Code and preparations for the upcoming Presidential elections. While the Company remains committed to developing the world class project and is ready to progress, until the Mining Code reform is finalised, and the elections scheduled for late 2023 have concluded, the Company does not expect to achieve material progress in securing fiscal terms or lifting of the project's on-ground suspension.

KWALE OPERATIONS

Operational performance

The Kwale South and North Dunes continued to be mined concurrently during the quarter, with mining operations split equally between the two deposits. Mined tonnage was higher at 4.1 million tonnes (**Mt**) (last quarter: 3.3Mt) following the stoppage for the mine move to North Dune last quarter. Mining rates in the high slime lower ore zones of the North Dune also improved during the quarter, but remain below the mining rates for the upper ore zone. Further enhancements aimed at improving North Dune mining rates will be trialled in the coming quarter.

The heavy mineral (**HM**) grade of ore mined in the quarter was lower at 3.0% (last quarter: 3.9%) due to the lower grades associated with the North Dune. Ilmenite recoveries were lower than the previous quarter due to a zone of high chrome ore in the South Dune that required a higher quantity of low magnetic rejects than normal to achieve requisite product quality. As a result of the lower ore grade mined and limited availability of heavy mineral concentrate stocks, production of finished products was lower than the prior quarter.

Sand tails continued to be deposited into the mined-out Central Dune area and capped with a 6m co-disposed slimes/sand layer to aid water retention and subsequent rehabilitation. Rehabilitation activities on the Central Dune and the South Dune proceeded to plan.

Preparations are underway to commence sand deposition in the mined-out areas of the North Dune pit with pumping infrastructure established during the quarter.

SUMMARY BY QUARTER	FY22	FY23			
	JUN	SEP	DEC	MAR	JUN
Mining (million tonnes)					
Ore mined	3.9	4.4	4.5	3.3	4.1
HM %	4.1	3.8	4.0	3.9	3.0
VHM %	3.1	2.9	3.1	3.1	2.3
Production (thousand tonnes)					
Ilmenite	83.8	86.0	84.5	71.6	55.5
Rutile	19.2	18.9	19.5	16.6	13.8
Zircon	6.8	6.6	7.4	6.4	5.5
Low grade products ¹	4.9	5.7	5.2	4.1	3.4

	FY22	FY23			
	JUN	SEP	DEC	MAR	JUN
US\$ per tonne					
Sales revenue	\$691	\$714	\$651	\$637	\$695
Operating costs	\$152	\$154	\$165	\$190	\$240
Cost of goods sold	\$196	\$200	\$191	\$195	\$263
Revenue: Cost ratio	3.5	3.6	3.4	3.3	2.6
Sales (thousand tonnes)					
Ilmenite	95.7	62.6	74.1	86.2	74.6
Rutile	24.7	14.2	14.7	15.2	19.6
Zircon	7.1	6.2	5.0	7.4	6.6
Low grade products ¹	4.7	4.5	4.7	5.3	3.2

Bulk shipping operations at the Company's Likoni export facility continued to run smoothly, with a combined 89.5kt of bulk ilmenite and rutile dispatched (last quarter: 96kt). Containerised shipments of rutile and zircon through the Mombasa Port also proceeded to plan.

Unit operating costs have increased to US\$240 per tonne produced (rutile, ilmenite, zircon and low-grade products) (last quarter: US\$190 per tonne) due to lower ore grades resulting in lower production. Despite this, total cash operating costs of US\$18.8 million are in line with the prior quarter (last quarter: US\$18.8 million) due to lower maintenance, product transport and shipping costs offsetting the higher mining costs.

Cost of goods sold increased to US\$263 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) due to sales volume and mix (last quarter: US\$195 per tonne), which also drove an increase in the average unit revenue US\$695 per tonne (prior quarter: US\$637 per tonne). Consequently, the revenue to cost of goods sold ratio for the quarter was 2.6 (last quarter: 3.3).

FY23 production and FY24 production guidance

Total Kwale Operations production for the 2023 financial year (FY23) was within the Company's previously disclosed guidance range. Total production for FY23, together with the Company's production guidance for FY23 and the 2024 financial year (FY24), is set out in the table below. The FY24 production guidance is unchanged from that previously announced².

Production Guidance (tonnes)	FY23 Guidance Range	FY23 Actual	FY24 Guidance Range
Rutile	62,000 to 73,000	68,784	35,000 to 41,000
Ilmenite	260,000 to 310,000	297,861	130,000 to 160,000
Zircon	22,000 to 27,000	25,954	13,000 to 16,000

MARKETING

Market conditions were relatively stable in North America and Europe but became challenging in China due to a stalling economic recovery. Despite this, firm demand continued for Base Resources' products through the quarter. Prices were steady for ilmenite and slightly lower for rutile, while zircon prices moderately increased on the expectation of improved domestic conditions after Chinese New Year.

Ilmenite demand and prices in China improved at the end of the March quarter and into the start of the June quarter as Chinese pigment plants ramped up production in anticipation of a rebound in the domestic pigment market. However, sentiment became increasingly negative through the quarter as the expected improvement in conditions was not realised. Increasing competition for pigment sales in both the domestic and export markets led to reduced production from some operations in China, which led to a corresponding decline

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 and an explanation of why the guidance is lower than the FY23 guidance.

in overall demand for ilmenite over the quarter. Chloride pigment producers in China, which are reliant on better quality imported ilmenite than the domestically produced ilmenite, continue to ramp up new production lines which is supporting demand for Base Resources' ilmenite.

The planned ramp up in pigment production from major western producers in the first half of 2023 has been slower than expected, with demand not returning to normal levels by the end of the quarter due to ongoing economic uncertainties in the major markets. Pigment producers are therefore maintaining a cautious approach to production to manage inventory levels. Rutile remains a preferred feedstock for western pigment producers as it enables plants to minimise the use of other costly raw materials such as chlorine. This supported rutile demand through the quarter with prices only declining moderately despite the challenging environment. This situation is expected to continue in the coming quarter.

Rutile demand from the smaller welding and titanium metal sectors remained firm in the quarter and is expected to increase for the coming quarter. Rutile prices into these sectors command a significant price premium over bulk rutile for the TiO₂ pigment market. Base Resources continues to increase its proportion of rutile sales to the welding sector.

As zircon sale contracts are typically agreed on a quarterly basis in advance of the relevant quarter, better than expected market sentiment across Europe and China in the March quarter resulted in an increase in the contracted price of zircon deliveries for the June quarter. However, stagnant conditions in Europe through the June quarter, combined with negative sentiment in China, has dented the outlook for zircon in coming quarters and zircon prices have decreased moderately for the September 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 one medical treatment injury recorded in the last 12 months, Base Resources' total recordable injury frequency rate is 0.20 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, planted 95 acres of cotton and 190 acres of maize in preparation for the new season, with recent rainfall providing an encouraging sign for farmers. Poultry feed production continued to supplement farmer incomes, and the Company's poultry and beekeeping programs continued to grow in popularity.

Over 52,000 trees have been planted during the current rainy season. Established environmental controls have ensured that the onset of the wet season were well managed with no significant erosion events or runoff into surrounding communities. Further, 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 due to the Government focus on an overhaul of the Malagasy Mining Code and preparations for the upcoming Presidential elections.

A replacement Mining Code has been approved by Parliament and is now under review by the High Constitutional Court for consistency with Madagascar's constitution. Following this review and assuming no changes are required, the replacement Mining Code will be sent to the President for promulgation and will pass into law when published in the Official Gazette.

Key financial elements of the replacement 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 upfront community development spend of US\$10 million.

The application of the above elements, and several other key provisions of the replacement Mining Code, lack sufficient detail to properly assess their potential impact on the project. Greater clarity is expected once the Government has finalised and published the supporting regulations, orders and decrees.

The first round of the Presidential elections are scheduled for 9 November 2023, with the second round (if needed) scheduled for 20 December 2023. If the President intends to contest the election as expected, he will have to declare his candidacy by 23 August 2023 and resign by 9 September 2023.

Until the Mining Code reform is completed and the 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.

Contact with major EPCM consultants, construction contractors and equipment suppliers continued to be maintained in readiness once the suspension is lifted. Assessment of potential funding options for the Toliara Project also progressed during the quarter.

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\$2.0 million (last quarter: US\$1.7 million).

Extensional exploration – Kenya

The Company released results from the first phase auger drilling program (**Phase 1**) at the Kwale East exploration project⁴ (within Prospecting Licence 2018/0119) shortly after the end of the quarter on 3 July 2023. The results confirmed the presence of HM, with a peak drill hole grade of 6.3% HM, as well as a high value mineral assemblage. Three areas of mineralisation were identified for further targeted exploration in the second phase air core drilling program – Magaoni, Masindeni and Zigira.

The second phase program is now underway and will focus on drilling the remaining ~35% of the highly prospective areas in Magaoni and Zigira as landholder consents are obtained. All auger holes from Phase 1 with an average HM grade greater than 1% will be twinned to enable better sample quality and allow drilling through to basement. It is expected that Phase 2 will be completed in the December quarter.

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.



Aircore drill rig in Kwale East.

Prospecting licence applications lodged for an area totalling 722 km² in the Kuranze region of Kwale County, about 70 km west of Kwale Operations, together with applications for an area south of Lamu, totalling 888 km², remain on hold pending lifting of a Government of Kenya moratorium on issuance of new mineral rights, in place since November 2019. The Company is working with the Government, and other mining sector stakeholders, to see the moratorium lifted.

Expenditure on exploration activities during the quarter in Kenya was US\$389k (last quarter: US\$312k).

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 122 holes drilled for 3,015m in the first phase reconnaissance exploration program were released in the quarter⁵. Three primary geological domains were identified. While rutile mineralisation was present in each domain, factors unique to each domain

⁵ 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.

were identified which would be expected to limit any significant economic potential. They included a lack of mineralisation thickness, a lack of continuity of mineralisation, or the presence of known deleterious elements for mineral sands processing.

A second phase infill drilling program to assess the continuity of rutile mineralisation in the saprolite layer completed 86 holes for 2,128m. Assaying of these drill samples has commenced at the Kwale Operations laboratory but assay priority is currently being given to Kwale East exploration drill samples and therefore results are not expected until late in the September quarter. These results will assist in planning future exploration activity at Umba South and elsewhere along the prospective geological zone once necessary land access approvals are obtained.

Expenditure on exploration activities during the quarter in Tanzania was US\$101k (last quarter: US\$431k).

CORPORATE

The Company is targeting release of its FY23 audited consolidated financial statements in the week commencing 28 August 2023. Confirmation of timing and investor webcast details will be advised closer to the planned release.

As at 30 June 2023, the Company had cash of US\$92.9 million and no debt.

The Company has the following securities on issue:

- 1,178,011,850 fully paid ordinary shares.
- 53,598,359 performance rights issued pursuant to the terms of the Base Resources Long Term Incentive Plan, comprising:
 - 1,872,852 vested performance rights, which remain subject to exercise⁶; and
 - 51,725,507 unvested performance rights subject to performance testing in accordance with their terms of issue.

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⁶ 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.