

## HIGHLIGHTS

- Further strong ilmenite price increases achieved and additional price increase locked in for contracted April sales, resulting in June quarter prices commencing approximately 200% higher than at the start of the financial year.
- Record quarterly rutile production of 23,107 tonnes.
- No lost time injuries.
- Positive exploration drilling results clearly demonstrate the potential to grow Resources and mine life to the north and south of existing Kwale Operations Ore Reserves.
- Further cash “sweep” from the Kwale Operations.
- Net debt reduced by US\$7.0m to US\$122.5 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. The quarter was again characterised by continuing improvement in ilmenite markets and a positive outlook for both rutile and zircon. The continued strong performance of Kwale Operations has reduced net debt by a further US\$7.0 million<sup>1</sup> in the quarter.

## KWALE OPERATIONS

<b>SUMMARY PHYSICAL DATA</b>	Mar 2016 Quarter	June 2016 Quarter	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter
Ore mined (tonnes)	2,410,503	2,363,395	2,325,174	3,049,333	<b>2,664,738</b>
HM %	8.96	9.87	7.51	5.83	<b>6.70</b>
HMC produced (tonnes)	209,787	226,453	164,192	152,259	<b>159,379</b>
HMC consumed (tonnes)	175,224	187,244	193,349	191,576	<b>186,814</b>
MSP feed rate (tph)	86	88	92	91	<b>91</b>
Production (tonnes)					
Ilmenite	110,760	119,340	121,821	116,982	<b>112,368</b>
Rutile	21,194	21,766	22,458	22,870	<b>23,107</b>
Zircon	7,865	9,471	9,050	8,591	<b>8,212</b>
Zircon low grade <sup>2</sup>	-	-	2,160	2,550	<b>2,474</b>
Sales (tonnes)					
Ilmenite	95,984	150,911	139,441	97,047	<b>122,783</b>
Rutile	14,500	32,454	23,023	19,773	<b>21,416</b>
Zircon	9,556	9,590	8,525	9,432	<b>8,069</b>
Zircon low grade <sup>1</sup>	-	-	-	3,397	<b>3,059</b>

<sup>1</sup> The net debt reduction of US\$7.0 million in the quarter was lower than the previous quarter (US\$18.1 million net debt reduction) due to the timing of bulk rutile shipments, and particular customer payment terms, which impacted cash receipts and therefore total net debt reduction.

<sup>2</sup> Zircon low grade tonnes contained in concentrate, equivalent to approximately 70-80% of the value of primary zircon.

Mined tonnage reduced to 2.66 million tonnes (“Mt”) from 3.05Mt in the previous quarter, largely as a consequence of a slight curtailment of feed rates whilst optimising concentrator efficiencies. At the beginning of March, mining operations relocated to a high grade section of the Central Dune in line with the current mine plan, resulting in an immediate increase in mined grade to >10% heavy mineral (“HM”) for the month.

Hydraulic mining operations progressed according to plan at the design rate of 400 tonnes per hour (“tph”). Additional equipment has been purchased to increase hydraulic mining rates to 800tph in July 2017, during the next scheduled hydraulic mining relocation. This will further decrease the contribution from the dozer-trap mining unit and should contribute to a reduction in operating costs.

The lowered mining rate in the quarter resulted in a 5% improvement in HM recovery in the wet concentrator plant (“WCP”) in line with recoveries achieved prior to pushing mining rates higher in the December 2016 quarter. This is due to capacity restrictions in the sand tails dewatering section of the concentrator that mean that, at high WCP feed rates, HM recoveries fall due to WCP feed densities exceeding design. De-constraining the WCP at higher mining rates is one of the primary deliverables of the Kwale Phase 2 project, discussed further below.

Heavy mineral concentrate (“HMC”) production from the WCP increased slightly over the prior quarter due to the higher grade of ore mined and stocks started to increase again in March when mining high grade ore. HMC stocks at quarter end were 43,455 tonnes. Concentrator availability during the quarter was high at 88%, compared to 86% in the prior quarter.

The tailings storage facility (“TSF”) sand wall stacking, lining and slimes deposition continued according to plan, with the final wall lift now underway. A 250-metre section of TSF wall, which has reached now full height, is being prepared for rehabilitation with grass and indigenous shrubs, ahead of the coming wet season rains.

As a consequence of the severe drought conditions experienced throughout the region in the past year, the Mukurumudzi Dam volume dropped from 4.6 gigalitres (“GL”) to 3.1GL, or 37% of capacity, during the quarter. Water conservation measures implemented at the Kwale Operations in 2016 have ensured sufficient water volume to continue to operate at full capacity through to, and beyond, the anticipated ‘long rains’ wet season between April and June. To help mitigate future risks with water supply, regulatory approval is being sought to increase borefield extraction from 5,280 to 9,060 cubic meters per day.

The mineral separation plant (“MSP”) maintained an average feed rate of 91tph for the quarter and availability remained at 95% with a total of 187 thousand tonnes (“kt”) processed. Optimisation and debottlenecking continues, aimed at improving recoveries and to ensure value is maximised through the balancing of primary final product production and zircon concentrate production (for sale).

Rutile production set another quarterly record of 23.1kt (22.9kt last quarter) due to recoveries increasing to 99% (98% last quarter) and the higher rutile content in the mineral assemblage of lower grade ore.

Ilmenite production dropped to 112.4kt (117.0kt last quarter) due to lower ilmenite content in the mineral assemblage in lower grade ore. Average recoveries for the quarter were 101%<sup>3</sup>, slightly lower than the previous quarter’s 102%.

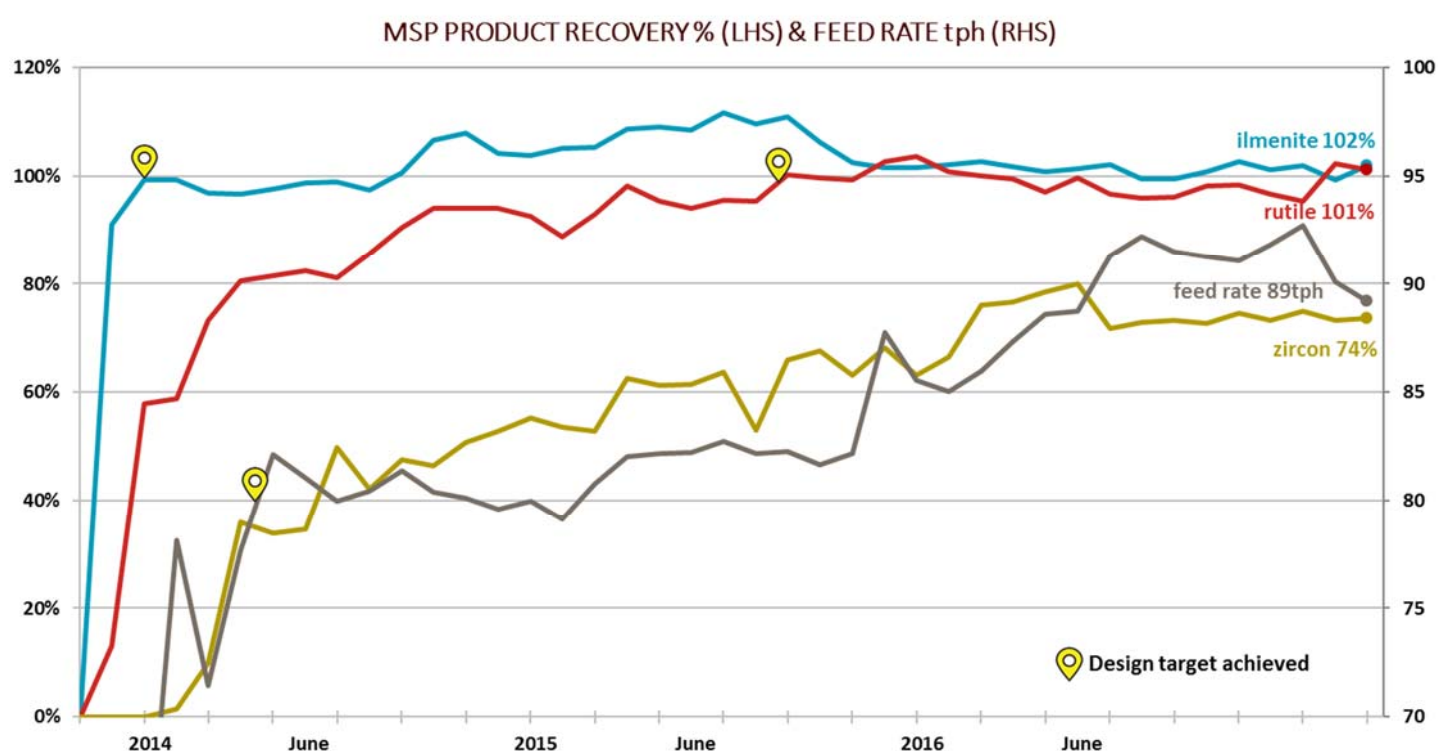
Zircon production for the quarter was lower at 8.2kt (8.6kt last quarter) due to lower zircon content in the feed. Average zircon recovery of 74% was slightly higher than last quarter’s 73%, but lower than the design target of 78%. Circuit optimisation and modifications continue.

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<sup>3</sup> 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 addition to primary zircon, in July 2016 Kwale Operations commenced production of a lower grade zircon product (“**zircon low grade**”) from re-processing of zircon tails into a zircon rich concentrate. Zircon low grade typically realises 70-80% of the value of each contained tonne of zircon. Reported zircon low grade represents the volume of zircon contained in the concentrate. To date, zircon low grade has been produced from the re-processing of run-of-production and stockpiled zircon circuit tails and this is anticipated to continue for the remainder of the financial year. During the quarter 2.5kt of zircon low grade was produced (2.6kt last quarter) and a single shipment containing 3.1kt of zircon low grade was made to China (3.4kt last quarter). When combined with primary zircon recoveries, the production of zircon low grade effectively lifts total zircon recoveries well above the design target of 77.8%.

The MSP product recoveries shown in the graph below reflect the primary product recoveries only and do not include any uplift for the production of zircon low grade.



Bulk loading operations at Base Resources’ Likoni Port facility continued to run smoothly, dispatching more than 152kt of ilmenite, rutile and zircon low grade during the quarter (125kt last quarter). Containerised shipments of rutile and zircon through the Mombasa Port proceeded according to plan.

SUMMARY OF UNIT COSTS & REVENUE PER TONNE (US\$)	Mar 2016 Quarter	June 2016 Quarter	Sept 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter
Unit operating costs per tonne produced	\$84	\$93	\$77	\$84	\$87
Unit cost of goods sold per tonne sold	\$106	\$111	\$91	\$102	\$119
Unit revenue per tonne of product sold	\$208	\$201	\$200	\$250	\$258
Revenue : Cost of goods sold ratio	2.0	1.9	2.2	2.5	2.2

Total operating costs were in line with last quarter, but the slightly lower production volumes resulted in a marginally higher unit operating cost of US\$87 per tonne produced (rutile, ilmenite, zircon and zircon low grade) (US\$84 per tonne last quarter). Cost of goods sold of US\$119 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) were also higher than last quarter (US\$102 per tonne sold) due 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 10kt each, which means any given quarter will typically contain either one or two of these sales. 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 March quarter saw two bulk rutile sales of 8.8kt and 10.0kt, and total rutile sales of 21.4kt, slightly higher than the prior quarter's 19.8kt total rutile sales, which, when combined with the higher ilmenite sales volume, higher ilmenite prices and zircon low grade sales, contributed to the increase in average revenue per tonne to US\$258 per tonne (US\$250 last quarter).

## FY2017 PRODUCTION GUIDANCE

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

- Rutile – 88,000 to 93,000 tonnes.
- Ilmenite – 450,000 to 480,000 tonnes.
- Zircon – 33,000 to 37,000 tonnes.
- Zircon contained in zircon low grade – 8,000 to 10,000 tonnes.

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

- Mining of 10.6Mt at an average HM grade of 7.12%, all from Ore Reserves<sup>4</sup>.
- MSP feed rate at an average of 91tph, consistent with recent performance.
- MSP product recoveries of 101% for ilmenite and 98% for rutile, and 74% for zircon, consistent with past performance and planned recovery improvements from MSP optimisation.

## MARKETING

The TiO<sub>2</sub> pigment industry continued to go from strength to strength through the March quarter and in the lead-up to the traditionally seasonally strong June quarter. This has resulted in further price improvement and ongoing strong demand for TiO<sub>2</sub> feedstock. Global pigment producers announced price increases through the early part of 2017, with several major pigment producers recently announcing a further price increase effective from 1 April 2017.

Prices for Base Resources' ilmenite have now increased by over 130% between May 2016 and March 2017. A Base Resources ilmenite shipment recently contracted for mid-April 2017 will see prices start the June quarter at approximately 200% higher than the mid-2016 level.

Political disruption to ilmenite exports from Tamil Nadu in India and suppressed ilmenite production in China's main ilmenite producing region, Sichuan province, due to increased environmental inspections has continued through the March quarter. These events, together with the ongoing strength in pigment demand, is expected to result in further improvements in ilmenite prices through the coming quarters.

Despite strong demand, an overhang of high grade TiO<sub>2</sub> feedstock capacity through most of 2016 and early 2017 has resulted in only moderate price improvement for rutile in recent quarters. However, there are increasing signs of an emerging supply deficit in this high grade sector and Base Resources now expects rutile prices to experience increased upward momentum through mid-2017.

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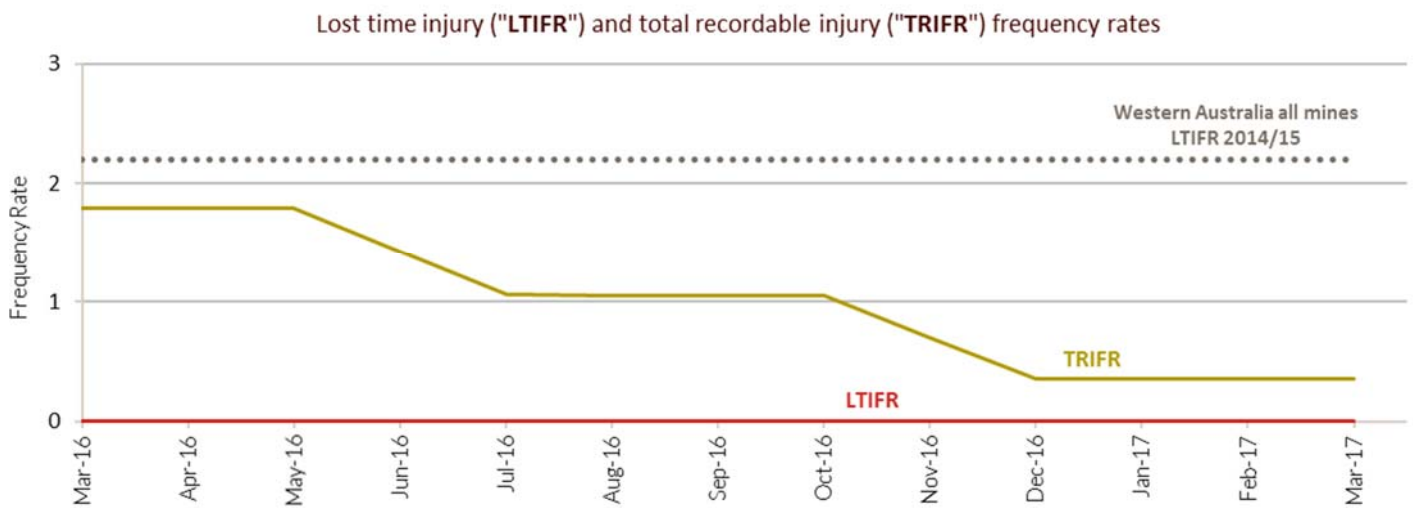
<sup>4</sup> The Ore Reserves estimates underpinning the above production targets were prepared by Competent Persons in accordance with the JORC Code (2012 edition). The above production targets are the result of detailed studies based on the actual performance of the Kwale mine and processing plant. These studies include the assessment of mining, metallurgical, ore processing, environmental and economic factors.



Zircon demand remained firm through the March quarter resulting in Base maintaining only a minimum working stock position throughout the period. Modest price improvement was achieved through the March quarter, however, lower than anticipated global zircon production for 2017 has reduced inventories and created increasing supply tightness resulting in a strong price improvement (of approximately US\$50/t) being secured for the June quarter contracted sales. With zircon customers concerned about securing future zircon supply, many buyers are attempting to build some safety stocks. Further solid price improvements are now expected through the remainder of calendar 2017.

## SAFETY

With no serious injuries occurring during the quarter, Kwale Operations’ lost time injury frequency rate (“LTIFR”) remains at zero. Base Resources’ employees and contractors have now worked 8.9 million man-hours LTI free, with the last LTI recorded in the March quarter of 2014. The total recordable injury frequency rate (“TRIFR”) has been maintained at 0.35 in quarter.



## COMMUNITY AND ENVIRONMENT

Agricultural livelihood programmes, run in conjunction with partners Business for Development, DEG, FMO, DFAT and Kenya Red Cross, continue to develop with encouraging support from both national and county Kenyan governments. These programmes, covering cotton, potato, sorghum and poultry, are expanding in the run-up to the long rains planting season, with the intention of reaching commercial scale and providing increased incomes to local families which can be sustained beyond the life of the Kwale Operations.

Harvesting has been completed and logistics are underway for a consignment of 30 tonnes of Kenyan cotton lint to be exported to Bangladesh for further processing into garments for Cotton On. Five tonnes of this shipment have been produced through the Kwale Cotton project, a positive outcome in challenging drought conditions. Land preparation and seed procurement are underway for the planting season in the next quarter.

As mentioned earlier, work has commenced on the rehabilitation of TSF slopes, with water retention layers and top soil deposition complete for a 250 metre stretch. Grass seeding will start in the coming quarter during the “long rains” wet season. Seed collected by, and top soil erosion control materials sourced from, local women’s groups are providing significant incomes for villages surrounding the mine site.

During the quarter, Base Resources also provided an additional 12 tonnes of relief food in collaboration with the Kwale County Government, local civil society organisations and Kenya Red Cross to alleviate hunger in the region resulting from the drought conditions.

## BUSINESS DEVELOPMENT

### EXTENSIONAL EXPLORATION - KENYA

The Company completed its planned aircore drilling programme within its Special Prospecting License 173 (“SPL 173”) in the SW Sector during this quarter. A total of 773 holes for 11,738 metres were drilled made up as follows:

Location	Holes	Metres
SW Sector (Kwale South Dune Extension & Mafisini)	368	5,801
NE Sector	43	1,119
Kwale Central Dune Deposit edge definition	23	303
Kwale South Dune Deposit edge definition	199	2,456
Kwale South Dune Deposit infill drilling	140	2,059
<b>Totals</b>	<b>773</b>	<b>11,738</b>

As previously reported on 2 March 2017, drilling results show a substantial increase in the dimensions of the South Dune Deposit (950m at an average of 700m across strike) and the discovery of the Mafisini Deposit (1,240m and up to 480m in width), separated from the South Dune by a narrow alluvial lowland.<sup>5</sup> These discoveries are marked in the SW Sector of Figure 1.

Substantial edge definition drilling, along the eastern margins of the South Dune Deposit, has also indicated the potential for a significant extension of this deposit, marked as Potential Eastern Extension in Figure 1.

An infill drilling programme on the Kwale South Dune Deposit was also completed, bringing it up to a 100m X 100m drill pattern, to facilitate the upgrade of Inferred and part of the Indicated Resource areas to a Measured status.

Detailed mineralogy and Resource estimation are targeted for completion in the September quarter.

As previously reported, drilling in the NE sector was suspended due to increasing political positioning ahead of Kenya’s general elections, currently scheduled for August 2017, which has produced community tensions not conducive to exploration. Resumption of drilling in this area is likely to be after the elections.

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<sup>5</sup> Refer to Base Resources’ market announcement on 2 March 2017. Base Resources confirms that it is not aware of any new information or data that materially affects the information included in its announcement on 2 March 2017.

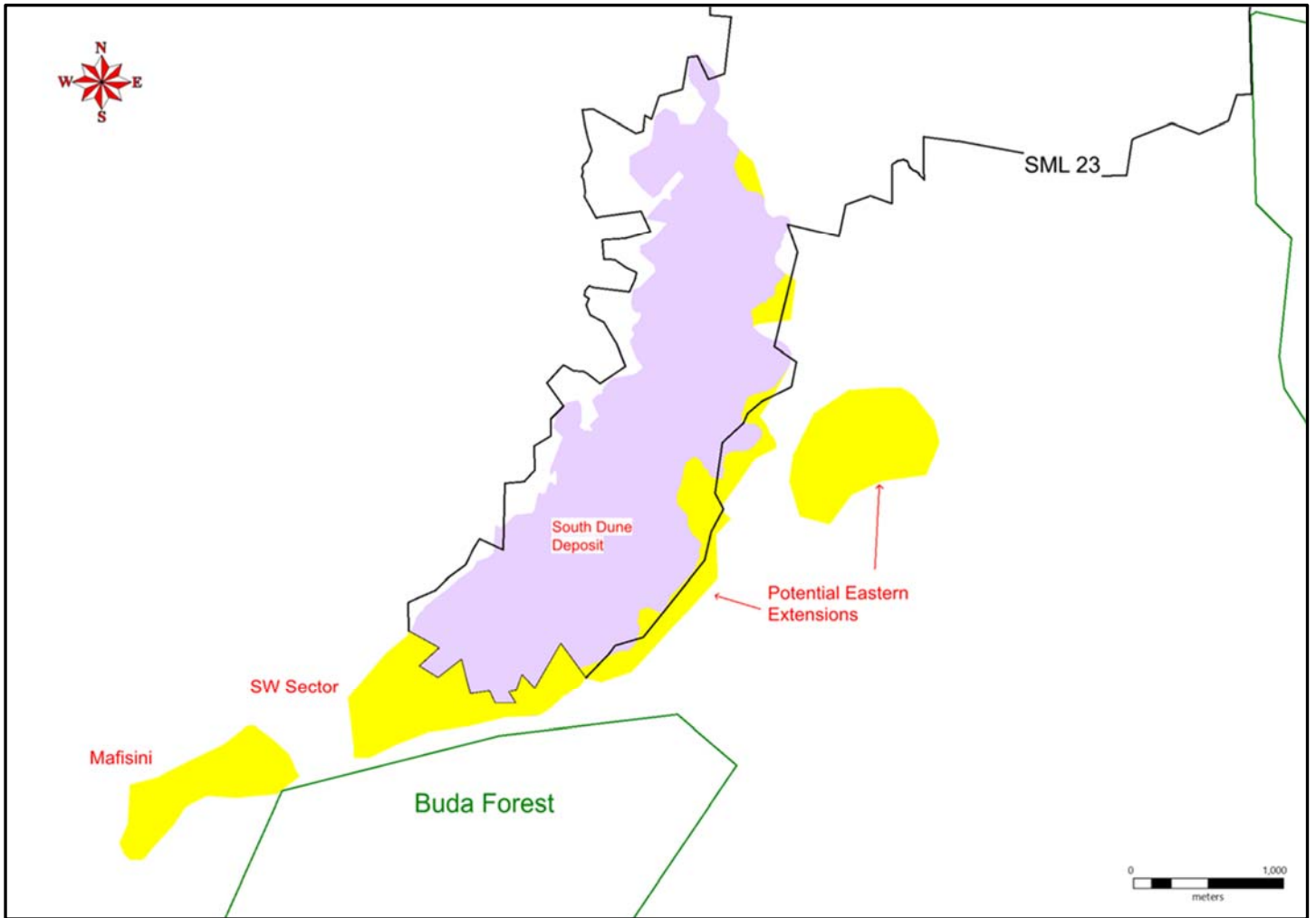


Figure 1: South Dune Deposit with estimated mineralised extensions in the SW Sector and along the eastern edge of the deposit.

In addition, the Company has also applied for a further Special Prospecting License covering an area of 136km<sup>2</sup> extending south west from SPL 173 towards the Tanzanian border. While this application has been approved by the Ministry of Mines, issuance of the license remains subject to the final recommendation of the Mineral Rights Board which has only recently been constituted and is expected to become functional in May 2017.

### EXPLORATION - TANZANIA

The Company now holds five prospecting licenses in northern Tanzania with a combined area of 475km<sup>2</sup> as shown in Figure 2. The areas of interest were identified through a prospectivity review and subsequent confirmatory ground reconnaissance.

The Company has progressed the necessary consents and clearances ahead of a planned preliminary drilling programme across all five licenses, which is scheduled to commence during the September quarter, after the completion of mineralogical analysis and Resource estimation from the recent drill program at Kwale.

Total exploration expenditure for the quarter, across all licenses in Kenya and Tanzania, was US\$0.49 million.



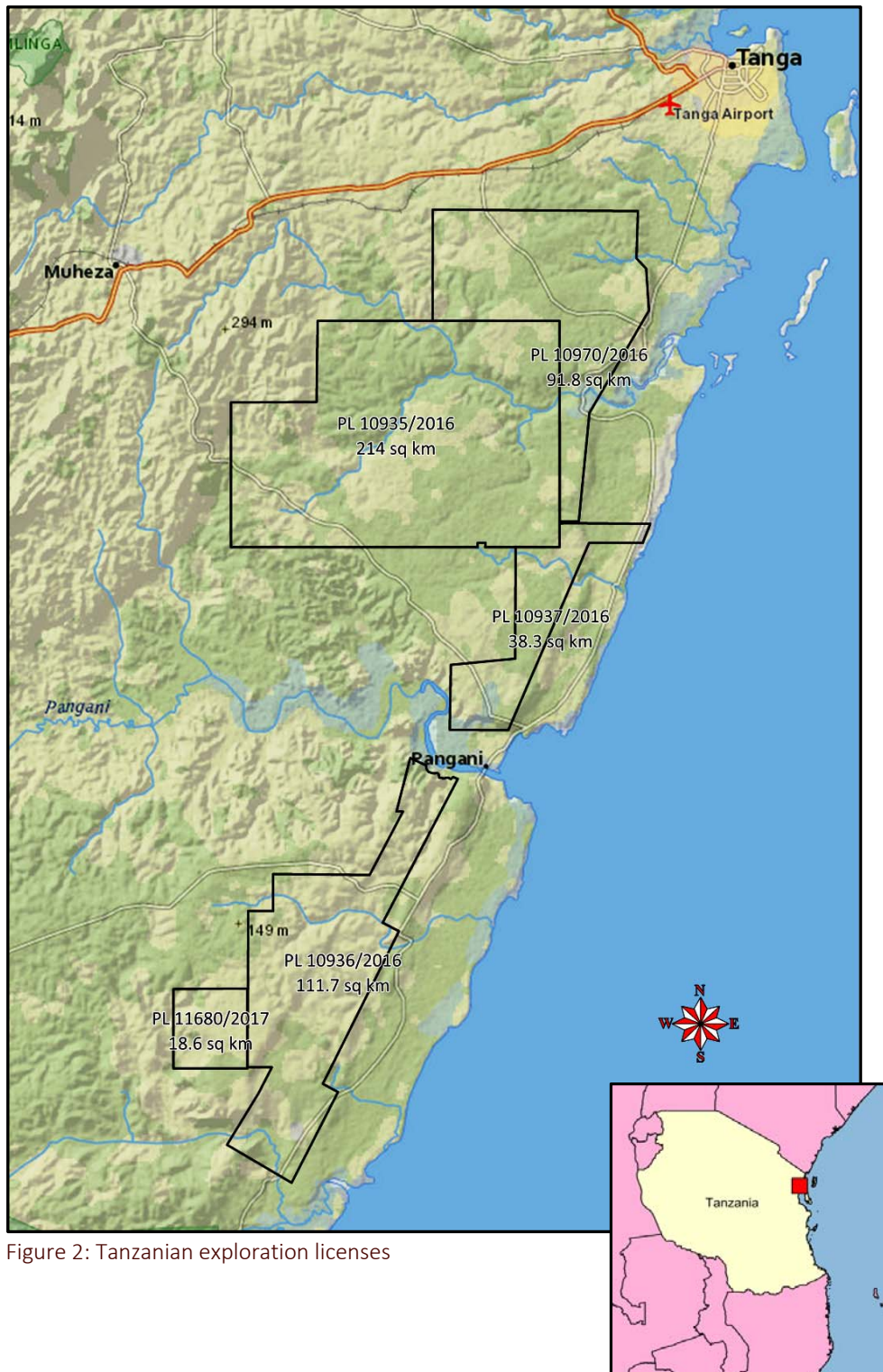


Figure 2: Tanzanian exploration licenses

### 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. Following a positive Pre-Feasibility Study completed in July 2016, a Definitive Feasibility Study (“DFS”) is underway. The hydraulic mining units currently being used successfully in mining operations have delivered encouraging results and work is underway to increase hydraulic mining rates from 400tph to 800tph. The DFS is 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\$19.0 million at 31 March 2017. These claims are proceeding through the Kenya Revenue Authority process, with 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 16 January 2017, and in accordance with the terms of the Kwale Operations Debt Facility, US\$14.6 million of surplus cash was 'swept' from Kwale Operations. Half of the cash sweep (US\$7.3 million) went towards mandatory repayment of the Kwale Operations Debt Facility, with the other half distributed up to the group's Australian parent entity, Base Resources. From the cash sweep portion received by Base Resources, a mandatory 75% (US\$5.5 million) was applied to repayment of the Taurus Facility, with the balance available to the Company for general corporate funding.

### EXPANDED BASE TITANIUM LIMITED BOARD OF DIRECTORS

During the quarter, Base Titanium, the Company's wholly-owned Kenyan operating subsidiary, appointed three additional members to its Board of Directors. These new members, investment banker John Ngumi, prominent Kenyan lawyer Desterio Oyatsi and financial market analyst, advisor and commentator Aly-Khan Satchu, bring vast experience from the private and public sectors and detailed knowledge of the East African business environment. They join existing Chairman Professor Joseph Maitha and Base Resources Executive Directors Tim Carstens and Colin Bwye on the expanded Board.

*In summary, at 31 March 2017:*

- Net debt of US\$122.5 million, consisting of:
  - Cash and cash equivalents were US\$23.3 million (unrestricted) and an additional US\$18.6 million (restricted – debt service reserve account).
  - Debt of US\$164.4 million.
- 742,231,956 shares on issue.
- 61,425,061 options (exercise price of A\$0.40, expiring 31 December 2018).
- 67,085,620 performance rights issued pursuant to the terms of the Base Resources Long Term Incentive Plan.

ENDS.

# CORPORATE PROFILE

Base Resources Limited ABN 88 125 546 910

## DIRECTORS

<b>Keith Spence</b>	Non-Executive Chairman
<b>Tim Carstens</b>	Managing Director
<b>Colin Bwye</b>	Executive Director

<b>Sam Willis</b>	Non-Executive Director
<b>Michael Anderson</b>	Non-Executive Director
<b>Michael Stirzaker</b>	Non-Executive Director
<b>Malcolm Macpherson</b>	Non-Executive Director

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