

## Quarterly Activities Report – December 2022

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 31 December 2022.

### KEY POINTS

- Contracted sales saw further price gains for rutile, while ilmenite and zircon prices moderated.
- Bumamani Project implementation remains on schedule - extending Kwale Operations mine life.
- Phase 1 of exploration drilling in northern Tanzania was completed, with a total of 149 holes for 3,889m. Results from this program are expected to be released in the March 2023 quarter.
- Exploration drilling commenced North-East of Kwale Operations, with 320 holes for 3,260m drilled to date.
- Discussions with the Government of Madagascar on Toliara Project fiscal terms continued to progress positively.
- Toliara Project Rare Earths Concept Study is on track for completion in the March 2023 quarter.
- Inaugural Sustainability Report and Sustainability Databook released.

### KWALE OPERATIONS

#### Operational performance

Mining operations continued on the South Dune with mined tonnage as planned at 4.5 million tonnes (**Mt**) (last quarter: 4.4Mt). The heavy mineral (**HM**) grade of ore mined in the quarter was higher at 4.02% (last quarter: 3.78%) due to new, higher-grade blocks being mined. As a result of the higher ore grade mined, there was a 3% increase in heavy mineral concentrate (**HMC**) production over the prior quarter, with the HMC stockpile increasing from 10kt to 15kt. Rutile and zircon production were higher in the quarter due to those products representing a higher proportion of the mineral assemblage and higher recoveries, while ilmenite production dropped slightly.

SUMMARY BY QUARTER	FY22			FY23	
	DEC	MAR	JUN	SEP	DEC
<b>Mining</b> (million tonnes)					
Ore mined	4.3	3.9	3.9	4.4	<b>4.5</b>
HM %	3.82	3.84	4.06	3.78	<b>4.02</b>
VHM %	2.94	2.92	3.12	2.85	<b>3.12</b>
<b>Production</b> (thousand tonnes)					
Ilmenite	84.0	84.5	83.8	86.0	<b>84.5</b>
Rutile	18.4	18.9	19.2	18.9	<b>19.5</b>
Zircon	6.4	6.3	6.8	6.6	<b>7.4</b>
Low grade products <sup>1</sup>	3.5	4.4	4.9	5.7	<b>5.2</b>

	FY22			FY23	
	DEC	MAR	JUN	SEP	DEC
<b>US\$ per tonne</b>					
Sales revenue	\$459	\$740	\$691	\$714	<b>\$651</b>
Operating costs	\$161	\$149	\$152	\$154	<b>\$165</b>
Cost of goods sold	\$156	\$227	\$196	\$200	<b>\$191</b>
Revenue: Cost ratio	2.9	3.3	3.5	3.6	<b>3.4</b>
<b>Sales</b> (thousand tonnes)					
Ilmenite	130.0	75.5	95.7	62.6	<b>74.1</b>
Rutile	11.6	25.3	24.7	14.2	<b>14.7</b>
Zircon	6.2	6.9	7.1	6.2	<b>5.0</b>
Low grade products <sup>1</sup>	1.5	4.8	4.7	4.5	<b>4.7</b>

Bulk shipping operations at the Company's Likoni export facility continued to run smoothly, with a combined 84kt of bulk ilmenite and rutile dispatched (last quarter: 63kt). Containerised shipments of rutile and zircon through the Mombasa Port also proceeded to plan.

<sup>1</sup> 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.

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

Total cash operating costs of US\$19.3 million were higher compared to the prior quarter (last quarter at US\$17.9 million), primarily due to higher unit power costs and increased maintenance costs. With the higher operating costs and consistent combined production volume, unit operating costs increased to US\$165 per tonne produced (rutile, ilmenite, zircon, low grade zircon and low-grade rutile) (last quarter: US\$154 per tonne).

Cost of goods sold decreased to US\$191 per tonne sold (operating costs, adjusted for stockpile movements, and royalties) due to sales volume and mix (last quarter: US\$200 per tonne), as did average unit revenue, which was US\$651 per tonne (prior quarter: US\$714 per tonne). Consequently, the revenue to cost of goods sold ratio for the quarter was 3.4 (last quarter: 3.6).

### **FY23 production guidance**

With the concurrent mining of the South Dune with the lower grade North Dune remaining on track to commence in March 2023, Kwale Operations production guidance for the 2023 financial year (**FY23**) remains at:

- Rutile - 62,000 to 73,000 tonnes.
- Ilmenite - 260,000 to 310,000 tonnes.
- Zircon - 22,000 to 27,000 tonnes<sup>2</sup>.

### **MARKETING**

Demand for Base Resources' products remained firm through the quarter, however pricing outcomes were mixed given the challenging economic conditions across some regions and market sectors. Rutile prices experienced further gains while ilmenite and zircon prices declined. Subdued conditions in most downstream markets are applying downward price pressure across all products for the March quarter, however demand for most products is expected to stabilise and provide a steady footing for future prices.

Despite weakness in the Chinese economy and the Chinese domestic pigment market, demand for imported ilmenite as a feedstock for Chinese TiO<sub>2</sub> pigment producers continued to hold up. Chinese domestic pigment demand stabilised towards the end of the quarter after a prolonged period of weakening conditions and most Chinese pigment plants are moving back towards normal production levels. Major pigment producers with exposure to export markets, which typically have a high dependence on imported ilmenite as a feedstock, have generally maintained high production levels as increased offshore sales have offset a decline in domestic sales. Export demand for these producers is likely to be maintained, particularly as high-cost sulphate pigment production in Europe has been curtailed. This, combined with a potential recovery in the Chinese domestic market following the lifting of the government's COVID-19 restrictions, is expected to provide ongoing demand strength for ilmenite imported into China.

Softening pigment market conditions in Europe since the latter part of the September quarter added to subdued domestic conditions in Asia and growing uncertainty in North America, resulting in some western pigment producers curtailing production rates. This has weighed on rutile demand through the quarter and into the start of 2023. However, contracted rutile prices to the pigment sector, mostly established in mid-2022 during tighter conditions, saw further price gains through the quarter. Major western pigment producers plan to ramp up production from early 2023 with an expectation that the pigment market will improve through early 2023 and return to normal levels by mid-2023. This should result in improving demand for rutile and provide support for prices.

Rutile demand from the smaller welding and titanium metal sectors remains strong but increased rutile inventories in Asia has placed pressure on the price premium that has been achieved in these sectors relative to the pigment sector. Overall, rutile prices are expected to decline moderately in the March quarter.

Softer zircon conditions in Europe added to the weak environment in the Chinese zircon market through the quarter which resulted in a decline in zircon prices. Subdued zircon demand going into the March quarter is being partially offset by reduced supply from some major producers experiencing production challenges and/or re-building their own zircon inventory in order to stabilise prices. Building optimism from the lifting of the government's COVID-19 restrictions in China may result in improved demand and pricing conditions for zircon in coming quarters.

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<sup>2</sup> Refer to Base Resources' announcement on 25 October 2022 "Quarterly Activities Report – September 2022" for the assumptions upon which the FY23 production guidance is based.

## SUSTAINABILITY

### Sustainability reporting

The Company released its inaugural Sustainability Report and Sustainability Databook in the quarter with both documents available on the Base Resources website.

### Health and safety

There were no lost time injuries during the quarter resulting in a lost time injury frequency rate (**LTIFR**) for Base Resources of 0.23 per million hours worked. Compared to the Western Australian All Mines 2020/2021 LTIFR of 2.0, this remains an exceptional performance and reflects the ongoing focus and importance placed on safety by management. With two medical treatment injuries recorded in the last 12 months, Base Resources' total recordable injury frequency rate is 0.69 per million hours worked.

### Community and environment – Kwale Operations

Farmers participating in the Company's agricultural livelihood programs in Kwale, implemented through the PAVI farmers' cooperative, continued harvesting of cotton, soybean, sunflower, pearl millet, groundnuts and sorghum. A strong yield has been harvested with over 30 tonnes of cotton delivered to a local ginnery and plans underway to increase the PAVI feed mill capacity from two to five tonnes per month following identification of new markets. 100 youths from local villages were selected and enrolled in vocational training courses as part of the Company's ongoing commitment to education and skills development.

Indigenous legumes, grass seed and manure continued to be sourced from local community groups for use in rehabilitation activities on the mined-out sections of the South Dune and the Central Dune. Propagation of indigenous trees in the Kwale Operations nursery to use in rehabilitation areas is ongoing.

### Community and environment – Toliara Project

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

## BUSINESS DEVELOPMENT

### Toliara Project development – Madagascar

Discussions with the Government of Madagascar on fiscal terms, and lifting of its on-ground suspension, have made encouraging progress in the quarter.

A Final Investment Decision (**FID**) to proceed with construction of the Toliara Project remains subject to lifting of the suspension and fiscal terms being agreed with the Government of Madagascar. Once these two key milestones are achieved, there will be approximately 11 months' work to complete prior to reaching FID, including finalisation of funding, completion of land access arrangements, conclusion of major construction contracts and entry of offtake agreements with customers. Contact with major EPCM consultants, construction contractors and equipment suppliers has been maintained in readiness to accelerate progress when conditions support. Assessment of potential funding options for the Toliara Project also progressed during the quarter.

The Toliara Rare Earths Concept Study, which is assessing the commercial potential of the monazite contained in the Toliara Project's Ranobe Mineral Resources estimate, is progressing towards completion in the March 2023 quarter. This study will provide the basis for a decision to proceed to a pre-feasibility study.

Total expenditure on the Toliara Project for the quarter increased to US\$2.6 million (last quarter: US\$2.0 million), with increased spend on the Toliara Rare Earths Concept Study and intensified government engagement activities.

### Kwale mine life extension

Implementation of the Bumamani Project, which will extend Kwale Operations mine life, continued during the quarter, and mining activities on the Kwale North Dune remain on schedule to commence in March 2023. The subsets of the Kwale North Dune forming part of the Bumamani Project will be mined concurrently with the South Dune to maximise mining rates and better manage tailings.

Expenditure on the Bumamani Project during the quarter was US\$9.9 million (last quarter: US\$9.2 million) with construction, earthworks and final land access activities taking place.

### Extensional exploration – Kenya and Tanzania

Landowner consent for access for exploration activities to the area immediately North-East of Kwale Operations (and within Prospecting Licence 2018/0119) was secured during the quarter, with 320 holes for a total of 3,260m having been drilled by the end of the quarter. Exploration in this area will continue in the March quarter as further land access is secured.

On-ground exploration in northern Tanzania progressed, with the initial 400m x 200m spaced reverse circulation drilling program being completed during the quarter. In total, 149 holes for 3,889m were drilled. The drill samples were exported to Kenya for analysis at the Kwale Operations laboratory with this work currently ongoing. Analysis for graphite is also being concurrently undertaken by an external laboratory. Results from this program are expected to be released in the March 2023 quarter.

Prospecting licence applications lodged for an area in the Kuranze region of Kwale County, about 70 km west of Kwale Operations, together with applications for an area south of Lamu, 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 of Kenya, and other mining sector stakeholders, to see the moratorium lifted.

Expenditure on exploration activities during the quarter in Tanzania was US\$232k (last quarter: US\$223k) and in Kenya was US\$158k (last quarter: US\$53k).



Figure 1: Auger drill rig in Kwale North-East.

## CORPORATE

### FY23 half-year financial results

The Company plans to release of its FY23 half-year consolidated financial statements on 27 February 2023. The timing for release will be confirmed, and investor call details will be advised, closer to the targeted release date.

In summary, as at 31 December 2022, the Company had net cash of US\$60.2 million consisting of cash and cash equivalents of US\$60.2 million and no debt.

Despite recording strong sales in the quarter, the Company's net cash position decreased, primarily due to Bumamani Project implementation expenditure, corporate tax instalment payments, dividend withholding tax payments and the majority of the sales occurring late in the quarter, leading to an increase in receivables of US\$17.2 million.

As at 31 December 2022, the Company had the following securities on issue:

- 1,178,011,850 fully paid ordinary shares.
- 58,020,619 performance rights pursuant to the terms of the Base Resources Long Term Incentive Plan, comprising:
  - 4,630,289 vested performance rights, which remain subject to exercise<sup>3</sup>; and
  - 53,390,330 unvested performance rights subject to performance testing in accordance with their terms of issue.

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

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<sup>3</sup> Vested performance rights have a nil cash exercise price. Unless exercised beforehand, these rights expire five years after vesting.