BASE RESOURCES

Quarterly Activities Report – June 2016

8 July 2016

HIGHLIGHTS

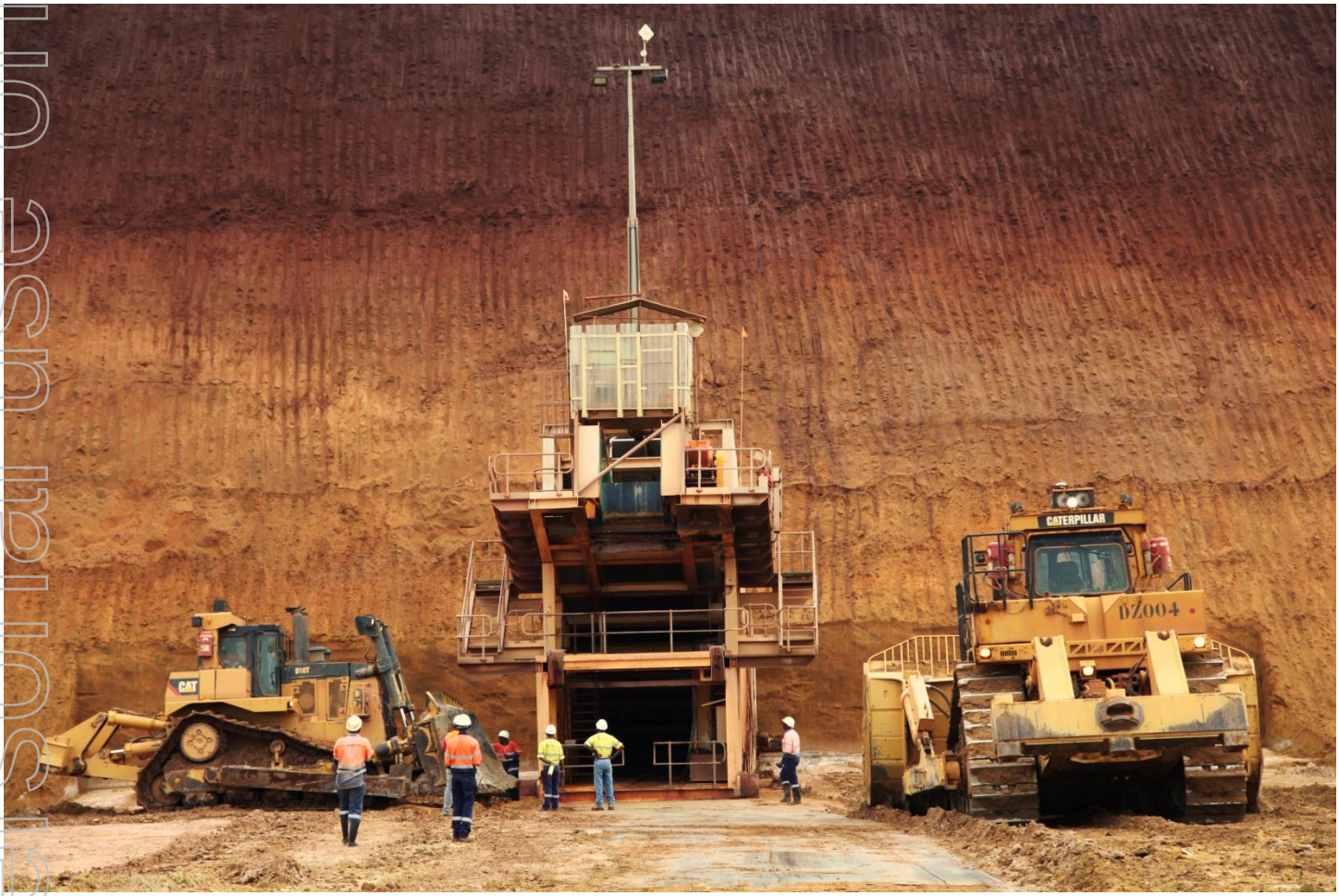
- Record sales volumes achieved for ilmenite and rutile, reflecting the continuing improvement in TiO_2 feedstock markets.
- Price increase secured for September quarter ilmenite sales.
- Strong production result with record, or near record volumes in all products, driven by:
  - Achievement of 78% recovery for zircon for the quarter and 80% in June such that recoveries of all products now exceed design targets.
  - An increase in Mineral Separation Plant ("MSP") throughput to 88tph for the quarter and 89tph in June.
- No lost time injuries.
- Production guidance for financial year 2017:
  - Rutile - 88,000 to 95,000 tonnes
  - Ilmenite – 450,000 to 480,000 tonnes
  - Zircon – 35,000 to 40,000 tonnes
- Exploration tenure granted over significant land area covering previously identified targets surrounding the Kwale Operations.

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. Operationally, the quarter has been one characterised by consistent production, further enhanced plant performance in throughput and zircon recovery and sound cost control. A strong sales performance reflects the improvement in titanium markets.

KWALE OPERATIONS

SUMMARY PHYSICAL DATA	June 2015 Quarter	Sept 2015 Quarter	Dec 2015 Quarter	Mar 2016 Quarter	June 2016 Quarter
Ore mined (tonnes)	2,334,457	2,327,361	2,101,295	2,410,503	2,363,395
HM%	9.18%	9.66%	4.31%	8.96%	9.87%
HMC produced (tonnes)	206,123	210,104	88,087	209,787	226,453
HMC consumed (tonnes)	169,061	170,258	176,717	175,224	187,244
MSP feed rate (tph)	82	82	84	86	88
Production (tonnes)					
Ilmenite	113,476	116,121	109,649	110,760	119,340
Rutile	19,499	20,926	21,768	21,194	21,766
Zircon	6,484	6,546	7,507	7,865	9,471
Sales (tonnes)					
Ilmenite	121,727	130,608	103,035	95,984	150,911
Rutile	25,382	14,686	23,896	14,500	32,454
Zircon	7,621	6,193	7,723	9,556	9,590

Mining operations continued in high grade zones of the Central Dune during the quarter, resulting in increased heavy mineral concentrate ("HMC") production, up from 209,787t in the prior quarter to 226,453t. A 400tph hydraulic mining unit ("HMU") will be introduced in the September quarter and will allow concurrent mining of high grade ore with the existing dozer trap mining unit ("DMU") and allow access to lower grade perimeter blocks more cost effectively utilising the HMU. As a result, the blended average ore grades are expected to be lower in coming quarters.



Dozer trap mining unit being moved to a new high grade block in the Central Dune

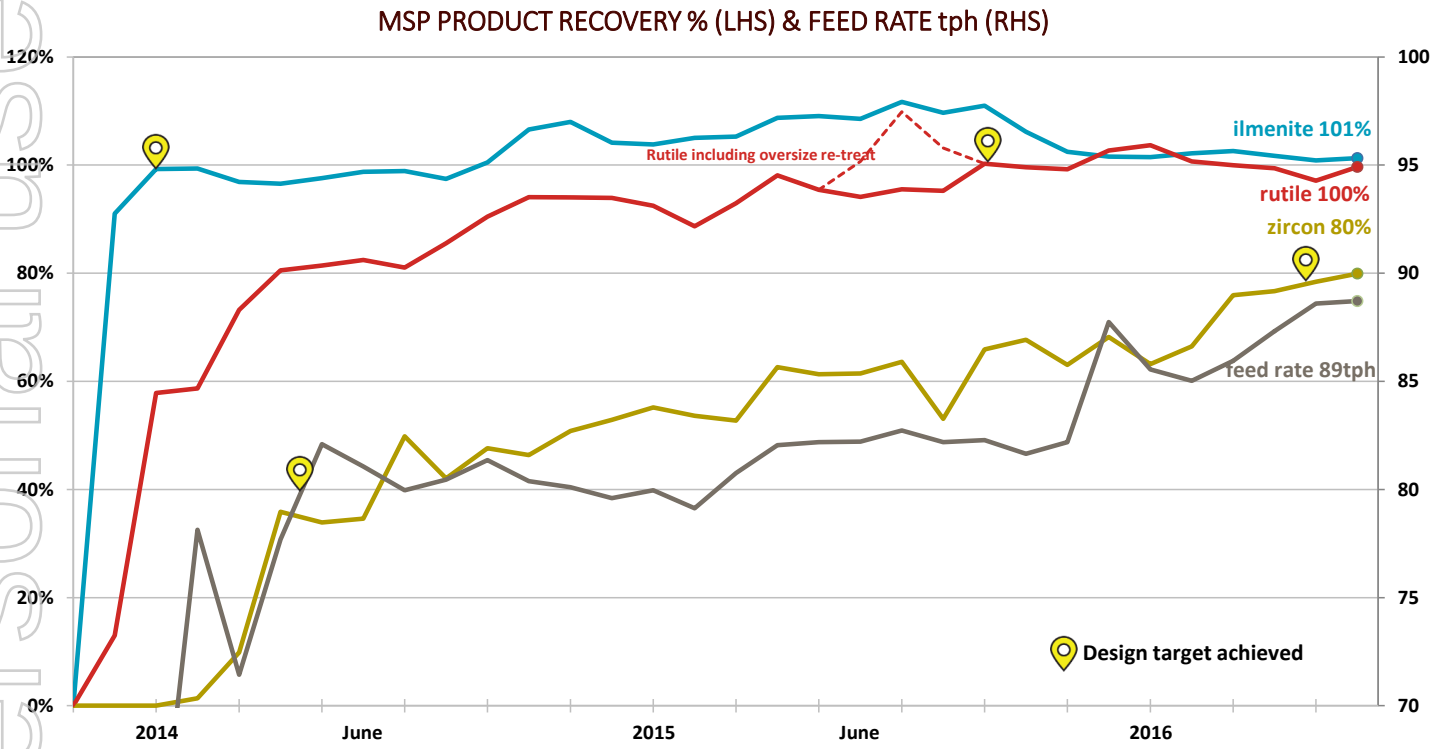
The tailings storage facility wall building and slimes deposition proceeded to plan. The Mukurumudzi Dam volume increased from 6.1GL to 6.8GL during the quarter with the onset of the 'long rains', the main wet season of the year. Lower than average rainfall has left the dam at approximately 80% of capacity at quarter end, compared with 100% in prior years. The 'short rains' in October should provide a further opportunity to replenish water levels.

Mineral separation plant ("MSP") optimisation during the quarter focused on increasing feed rates and zircon recoveries. Following the replacement of two rare earth drum magnets that had been out of commission since February 2016, the MSP achieved a feed rate of 89tph in June and averaged 88tph for the quarter (up from 86tph last quarter), whilst maintaining a high availability of 97% (94% last quarter). Ongoing optimisation is expected to yield sustained increases in feed rates above 90tph from next quarter.

Rutile production for the quarter was slightly higher at 21.8kt (21.2kt last quarter) on the back of higher throughput, partially offset by a slight drop in recoveries to 99% (101%[1] last quarter) and proportionally lower rutile content in the feed sourced from high (HM) grade ore in the Central Dune, a feature of the Kwale deposit.

Ilmenite production increased to 119kt (111kt last quarter) due to higher MSP throughput and the proportionally higher ilmenite content (and lower rutile content) in the feed. Average recoveries for the quarter were 102%[1], consistent with last quarter.

Average zircon recovery for the quarter increased to the 78% design target (69% last quarter) as a result of ongoing wet and dry zircon circuit optimisation. June zircon recoveries increased to a record 80%, lifting zircon production to 9,471t for the quarter (7,865t last 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. By quarter's end, all stocks of ilmenite had been sold from Base Resources' China warehouse.

Containerised shipments of rutile and zircon through the Mombasa Port proceeded according to plan.

SUMMARY OF CASH OPERATING COSTS & REVENUE PER TONNE (US$)	June 2015 Quarter	Sept 2015 Quarter	Dec 2015 Quarter	Mar 2016 Quarter	June 2016 Quarter
Cash operating costs (incl. royalties)	$13.7m	$13.6m	$14.1m	$13.4m	$12.3m
Cash op. costs per tonne produced	$98	$95	$102	$96	$82
Revenue per tonne of product sold	$247	$172	$245	$208	$208

[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.

Continued tight control of costs saw total cash operating costs for the quarter (inclusive of royalties) of US$12.3 million, slightly over US$1 million lower than the prior quarter, largely due to timing of expenditure. Operating costs per tonne produced (rutile, ilmenite and zircon) were lower at US$82/t compared to the US$96/t of the prior quarter, due to the lower total cash operating costs and the 10,750 tonne increase in production volumes. Operating costs in the coming quarter are expected to increase due to planned mid-life servicing of the mobile mining fleet, however the timing of this is dependent on condition monitoring of the fleet. It can be expected that maintenance costs will trend up over time as the plant and equipment ages.

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 six or seven 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 June quarter saw a record three bulk rutile sales but the impact on average revenue per tonne was mitigated by similarly high ilmenite sales as well as lower prices for both rutile and zircon when compared to the previous quarter, leaving the average revenue per tonne at US$208.

FY2017 PRODUCTION GUIDANCE

For financial year 2016, the Kwale Operations produced:

- Rutile – 85,654 tonnes (Financial year 2015 ("**FY15**"): 71,537 tonnes)
- Ilmenite – 455,870 tonnes (FY15: 427,655 tonnes)
- Zircon -31,389 tonnes (FY15: 22,416 tonnes)

For financial year 2017 ("**FY17**"), the Kwale Operations are expected to achieve production in the range of:

- 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 10.2Mt at an average HM grade of 6.95%, all from Ore Reserves[2].
- MSP feed rate at an average of 91tph, a slight increase over recent performance as two new magnetic rolls were installed in June, replacing those that had been out of service since February 2016 and restricting the feed rate.
- MSP product recoveries of 102% for ilmenite and 100% for rutile, and 78% for zircon, consistent with recent performance.

MARKETING

The strongest 'painting season' for several years has resulted in a solid improvement in the TiO_2 pigment market through the quarter. Activity from other major mineral sands' end-use sectors has remained relatively sluggish.

TiO_2 pigment producers succeeded on several occasions through both the March and June quarters in increasing pigment prices and it is expected that they will continue moving prices upward through the September quarter. Pigment sales

[2] The Ore Reserve 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.

volumes have been increasing firmly through the quarter resulting in a marked improvement in TiO_2 feedstock consumption and some re-stocking activity within the downstream supply-chain. This improved demand resulted in very strong sales for Base Resources through the quarter for both ilmenite and rutile. Ilmenite supply moved into a period of tightness through May and market prices experienced a significant step upwards by the end of the quarter. The Company has effectively fully sold all ilmenite production through to September and should benefit from expected continued improvement in ilmenite prices through the September quarter.

The surplus of high grade TiO_2 feedstock (including rutile) supply through H1, 2016 appears to have been consumed at a faster rate than initially expected, resulting in the potential for price improvement through the September quarter. Indications from major consumers are that offtake of high grade feedstocks will exceed their original plans for 2016.

Demand for zircon was solid for the quarter, resulting in strong sales for Base Resources and minimal stocks remaining at the end of the quarter. Ongoing subdued market conditions up to the end of the March quarter resulted in a major zircon supplier sharply discounting zircon prices in March (ahead of negotiating June quarter contracts). The impact of this was a major step down in zircon prices for the June quarter. However, improved zircon consumption through the seasonally strong June quarter has helped to stabilise market prices and it is expected that prices will remain at current levels through the September quarter. Zircon demand continues its gradual, but sluggish, growth in most markets. Any improvement in zircon prices is not likely until surplus production and inventories are fully absorbed through the supply chain.

SALES AGREEMENT – UPDATE TO FORCE MAJEURE NOTICE RECEIVED IN MARCH QUARTER

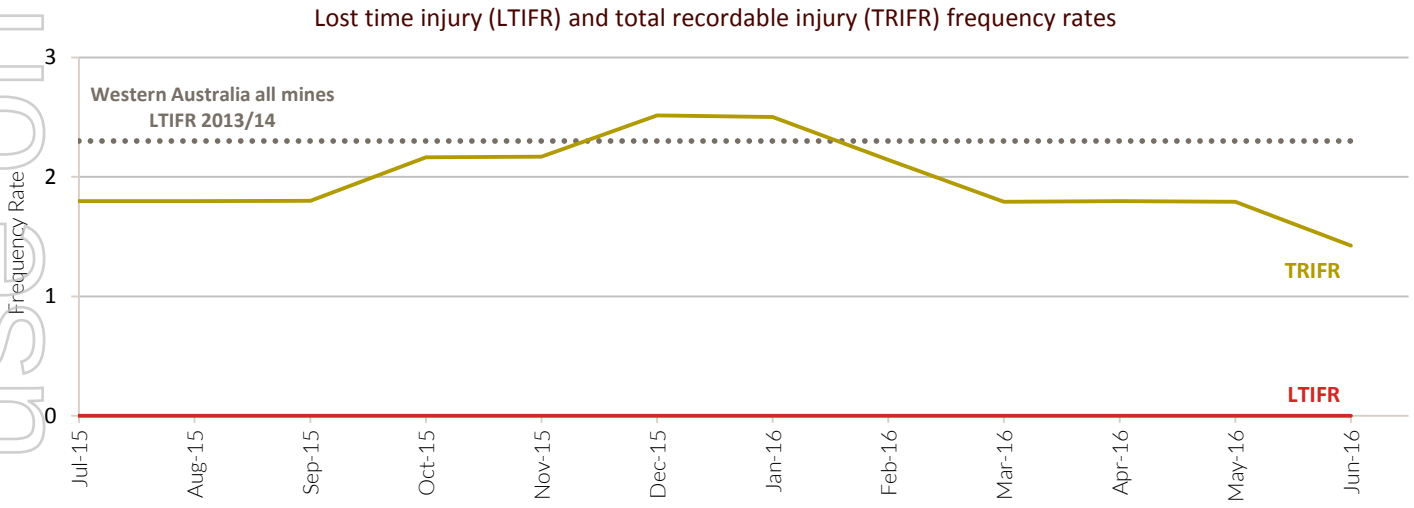
As announced on 16 January 2016, Base Resources received a force majeure notice ("**Notice**") from a counterparty to an ilmenite sales agreement seeking to suspend the counterparty's obligations under the agreement. Base Resources is pleased to advise that a revised delivery schedule has been agreed with the counterparty and no further action will be taken in relation to the Notice.

SALES AGREEMENT – UPDATE TO NOTICE OF REDUCTION RECEIVED IN MARCH QUARTER

As announced on 15 February 2016, Base Resources received a notice from a counterparty to a long term rutile sales agreement exercising its contractual right to reduce the annual quantity of rutile to be purchased by the counterparty by approximately 20kt in the current contract year ("**Reduction**"). Base Resources advises that a subsequent upward revision to the offtake schedule from that counter party in their current contract year, together with significant new rutile sales being secured with another party, has resulted in Base Resources fully committing all production for FY17.

SAFETY & TRAINING

With no serious injuries occurring during the quarter, Kwale Operations' LTIFR remains at zero. Base Resources employees and contractors have now worked 6.5 million man-hours LTI free, with the last LTI recorded in the March quarter of 2014. Ongoing initiatives continue to entrench a solid safety culture with no medical treatment injuries during the quarter.



COMMUNITY AND ENVIRONMENT

Agricultural livelihood programmes, run in conjunction with partners Business for Development, DEG and Kenya Red Cross continue to develop with encouraging support from both national and county Kenyan governments. Additional financial support has been secured with a number of new organisations, including FMO, reflecting the quality, scope and potential of these agricultural programmes to drive regional socio-economic development.

With the onset of the 'long rains' during the quarter, planting commenced for a variety of crops including potato, cotton, maize, sorghum and other legumes.

The poultry program continues to be rolled out with the first batch of dual-purpose chickens delivered to a further 25 smallholder farmers in May, to enhance protein requirements and income generation. A second batch of 800 dual-purpose birds will be part of a program run with a local youth organisation.

Construction of the blood bank at Msambweni Referral Hospital has commenced with completion expected in September 2016. This facility was identified as one of the most critical components of delivering improved health services in both the Kwale County health development plan and Base Resources' Health Impact Assessment. Equipment and training for the facility is provided by Kwale County Government and a German donor agency.

Environmental monitoring continues to show that mine operations are being carried out to the highest standards and mitigation of impacts has been successfully implemented. Considerable improvement is evident in wetland areas supporting a number of key indicator species which are now thriving near the mine site.

BUSINESS DEVELOPMENT

COMMENCEMENT OF EXPLORATION

As previously announced on 21 June 2016, Base Resources has been granted exploration tenure over a significantly expanded land area surrounding the Kwale Operations in Kenya and expects to commence a drilling program in the September quarter.

The proposed drilling program follows a successful airborne geophysics program, conducted in 2015, covering the south coast region of Kenya from Mombasa to the Tanzanian border, which identified a series of exploration targets that were subsequently confirmed through ground reconnaissance. The initial program will comprise up to 18,000 metres of aircore drilling, for which tenders are currently being evaluated.

In addition to an extension of the Company's Special Prospecting License 173 ("**SPL 173**"), which now covers an area of 177km^2, Base Resources 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.

Only minimal exploration expenditure has been incurred during the quarter related to the applications process.

KWALE PHASE 2 PROJECT

Base Resources initiated the Kwale Phase 2 project in 2015 with its focus being an optimised combination of the Central and South dune mining sequence and methodology and increased mining rates in lower grade zones. The Pre-Feasibility Study is on schedule for completion in July 2016.

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 June 2016. These claims are proceeding through the Kenya Revenue Authority process, with a number of operational period claims, totalling approximately US$1 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.

In summary, at 30 June 2016:

- Cash and cash equivalents were A$36.3 million (unrestricted) and an additional A$30.0 million (restricted – debt service reserve account).
- Debt of US$200.5 million, following a US$9.5 million scheduled repayment of the Kwale Project Debt Facility on 15 June 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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Keith Spence	Non-Executive Chairman
Tim Carstens	Managing Director
Colin Bwye	Executive Director
Sam Willis	Non-Executive Director
Michael Anderson	Non-Executive Director
Michael Stirzaker	Non-Executive Director
Malcolm Macpherson	Non-Executive Director

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