Quarterly Activities Report – December 2015

20 January 2016

HIGHLIGHTS

- Record production of rutile and zircon.
- Improved zircon recoveries of 68% being achieved in December as a result of ongoing circuit optimisation.
- Rutile recoveries reached 103% in December, 6% above design, as a result of installation of an additional magnet stage in the MSP.
- Solid sales volumes, largely mirroring production for the quarter.
- No lost time injuries.
- Rescheduling of the Kwale Project Debt Facility completed, which establishes a repayment profile more appropriate to the current commodity price environment.
- Production guidance for financial year 2016:
  - Rutile - 80,000 to 84,000 tonnes;
  - Ilmenite – 430,000 to 450,000 tonnes; and
  - Zircon – 27,000 to 30,000 tonnes.

Base Resources Limited (ASX & AIM: BSE) ("**Base**" or the "**Company**") is pleased to provide a quarterly operational update for its Kwale Mineral Sands Operations ("**Kwale Operations**") in Kenya, East Africa. The successful completion of the remaining elements of the mineral separation plant ("**MSP**") upgrade project, together with ongoing process optimisation, yielded benefits in both throughput and downstream recoveries of rutile and zircon during the quarter. With ilmenite and rutile production now at or above design, the focus remains firmly on continued improvement in zircon recovery through further optimisation of the MSP.

KWALE OPERATIONS

SUMMARY PHYSICAL DATA	Dec 2014 Quarter	Mar 2015 Quarter	Jun 2015 Quarter	Sept 2015 Quarter	**Dec 2015 Quarter**
Ore mined (tonnes)	2,328,746	2,291,444	2,334,457	2,327,361	**2,101,295**
HM%	7.49%	9.33%	9.18%	9.66%	**4.31%**
HMC produced (tonnes)	165,953	206,324	206,123	210,104	**88,087**
HMC consumed (tonnes)	165,512	159,926	169,061	170,258	**176,717**
Production (tonnes)					
Ilmenite	107,893	105,753	113,476	116,121	**109,649**
Rutile	18,672	16,754	19,499	20,926	**21,768**
Zircon	5,308	5,414	6,484	6,546	**7,507**
Sales (tonnes)					
Ilmenite	53,345*	103,736	121,727	130,608	**103,035**
Rutile	23,328	15,168	25,382	14,686	**23,896**
Zircon	5,883	5,178	7,621	6,193	**7,723**

*Reported volume includes 22,340t which was reversed after it was determined that the terms of the sales agreement did not satisfy revenue recognition criteria at the time of shipment. The product was sold in later quarters.

After several quarters of mining in high grade blocks, the planned progression through to the adjacent lower grade perimeter blocks on the eastern edge of the Central Dune, saw the average mined ore grades decline to 4.31% heavy mineral ("**HM**") as expected. A planned major maintenance shut of the wet concentrator plant ("**WCP**") and mine in October, followed by an unplanned shut in December to make repairs to the process water dam liner, resulted in reduced tonnes mined for the quarter of 2.1Mt.

Mining activities in the Central Dune

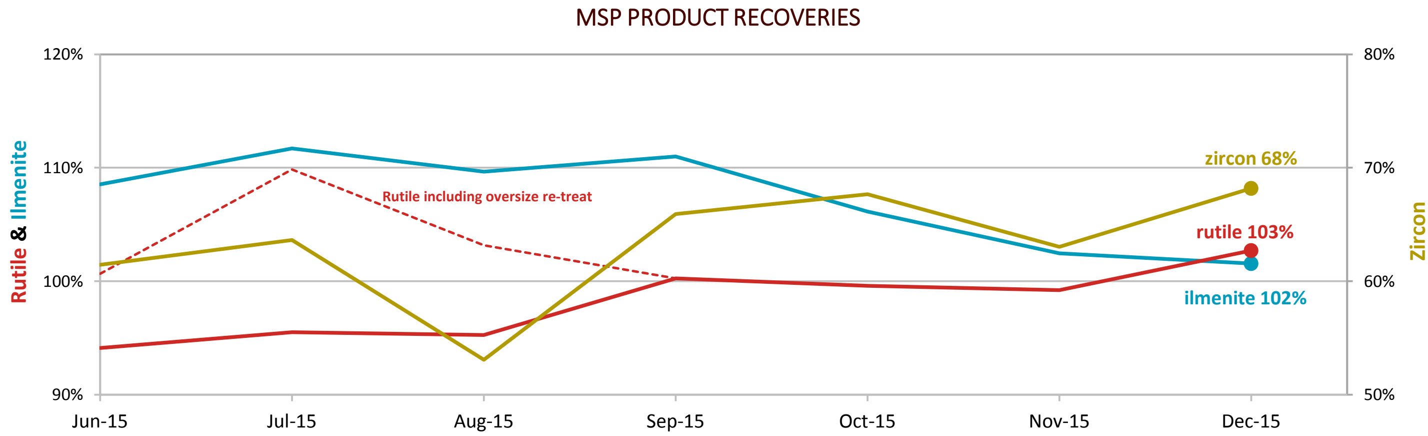
As a result of the low feed grade, WCP production of heavy mineral concentrate ("**HMC**") was significantly lower than prior quarters. The HMC stockpile, built up in prior quarters to accommodate the planned mining sequence, was drawn down by 89kt as MSP consumption increased to above design levels following completion of upgrade projects. Mining will move back to higher grade sections of the Central Dune during the coming quarter, with a resultant increase in HMC production and the rebuilding of the HMC stockpile.

Slime and sand deposition in the tailings storage facility continued to operate according to plan. The onset of the "short rains" in October ensured the Mukurumudzi Dam remained full throughout the quarter.

The installation and commissioning of the final MSP upgrade project planned, an additional magnet stage, yielded benefits in both throughput and downstream recoveries of rutile and zircon. Consequently, MSP throughput for the quarter was a record 177kt, due to the increased feed rate of 84tph (up from 82tph last quarter) and high availability of 95% (94% last quarter). Ongoing optimisation is expected to yield additional benefits over the coming quarter, particularly for zircon.

Rutile production for the quarter of 21.8kt represented an increase of 7% over the prior quarter. After adjusting for 1,510t of oversize re-treat gains in the prior quarter, the underlying primary production increased 12% this quarter. Average rutile recoveries increased 4% to 101% this quarter, including 103% in December, well above the 97% design target for the MSP. In addition to the increased recoveries, higher MSP throughput and the proportionally higher rutile content of low grade ore have contributed to the increased production.

The presence of altered ilmenite species, that are not defined as either "ilmenite" or "rutile" in the Resource but are recovered in the production of both, results in calculated recoveries above 100% being achievable for both ilmenite and rutile.



Ilmenite production dropped from 116kt to 110kt as a result of the additional MSP magnet stage upgrade which has had the effect of removing rutile from ilmenite product and creating a high Cr_2O_3 stream, which is now rejected to enhance product quality. As a result, average ilmenite recovery was reduced from 111% last quarter to 103% this quarter. The proportionally lower ilmenite content of low grade ore was a further contributor to the lower ilmenite production volume in the quarter.

Zircon production improved significantly by 15% from 6,546t to 7,507t. Zircon recovery increased from 61% to 66% as a result of wet and dry zircon circuit optimisation and the additional magnet stage. The focus is now on optimising the zircon circuit to achieve the final design recovery of 78% over the coming months.

Bulk loading operations at Base's Likoni Port facility continued to run smoothly, dispatching more than 124kt during the quarter. Sales continue to be made from Base's China warehouse as part of our strategy for securing market share in China by offering product for immediate delivery and in smaller volumes than could be justified for a shipment direct from Kenya. By adopting this strategy, Base is tapping into smaller scale customers not able to commit to large shipment volumes and also allows Base to offer prospective large new customers sample size volumes for testing.

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

SUMMARY OF CASH OPERATING COSTS & REVENUE PER TONNE (US$)	Dec 2014 Quarter	Mar 2015 Quarter	Jun 2015 Quarter	Sept 2015 Quarter	**Dec 2015 Quarter**
Cash operating costs (incl. royalties)	$17.0m	$16.7m	$13.7m	$13.6m	**$14.1m**
Cash op. costs per tonne produced	$129	$130	$98	$95	**$102**
Revenue per tonne of product sold	$374	$191	$247	$172	**$245**

Cash operating costs for the quarter (inclusive of royalties) of US$14.1 million were marginally higher than the prior quarter mainly due working capital movements, with underlying operating costs relatively stable. Operating costs per tonne produced (rutile, ilmenite and zircon) were slightly higher at US$102/t compared to the US$95/t of the prior quarter, due to the lower combined production volumes and higher cash operating costs this quarter. Operating costs in the coming quarter are expected to increase due to planned mid-life servicing of the mobile mining 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. In a normal year there are usually six bulk rutile sales of approximately 10-12kt each, which means any given quarter will 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 will have a significant bearing on revenue, but not sales volume. Two bulk rutile sales this quarter resulted in revenue per tonne sold of US$245/t, higher than the prior quarter's US$172/t where only one bulk rutile sale occurred.

FY2016 PRODUCTION GUIDANCE

For financial year 2016 ("**FY2016**"), the Kwale Operations are expected to achieve production (including production to date) in the range of:

- Rutile - 80,000 to 84,000 tonnes
- Ilmenite – 430,000 to 450,000 tonnes
- Zircon – 27,000 to 30,000 tonnes

The above production targets are based on the following assumptions for the remaining six months of FY2016:

- Mining of 4.5Mt at an average HM grade of 8.81%, all from Ore Reserves.
- MSP feed rate at a minimum 84tph, consistent with the rate achieved this quarter.
- MSP product recoveries of at least 103% for ilmenite and 98% for rutile, and ramping up to 78% for zircon.

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.

MARKETING

The economic uncertainty China and Europe experienced in the prior quarter continued to weigh on customer confidence through this quarter. This, combined with the usual seasonal slow-down in demand, has resulted in ongoing cautious buying behaviour from customers.

The global TiO_2 pigment industry continued to slow down through the quarter with pigment sales volumes and prices again declining. Significant reductions in pigment output from global producers occurred during the quarter, reducing demand for feedstock. Base again maintained solid sales for the quarter but experienced ongoing pressure on pricing for ilmenite in particular as competition for sales remained high. A significant proportion of global ilmenite production is experiencing mounting financial pressure from unsustainably low market prices, and there is evidence this is now forcing some production to cease. Following the suspension of ilmenite production from some major Chinese producers last quarter, a major Russian producer of ilmenite announced in December its operation was being placed on care and maintenance.

Looking ahead, the March quarter is usually a period of low demand for titanium feedstocks and it is not expected that there will be any significant improvement in conditions over its course. It is likely that some supply will continue to drop out of the market through the March quarter, particularly for ilmenite. A positive development at the end of the December quarter was a series of pigment price increase announcements from most of the major global producers to be made effective from 1 January 2016.

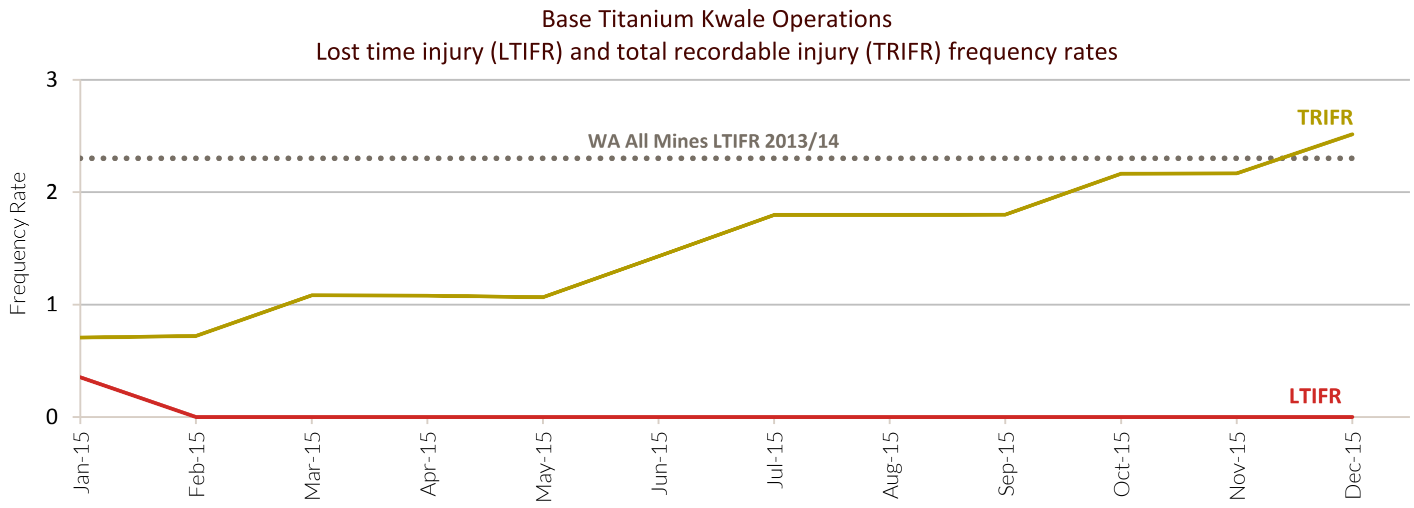
Zircon demand was generally steady through the December quarter. However, the continued stock over-hang in the market, combined with increasing competition for sales between the major zircon producers, resulted in further price erosion through the quarter. Similar conditions are set to prevail through the seasonally weak March quarter before stabilising in the lead up to the June quarter when demand is expected to improve.

SALES AGREEMENT - FORCE MAJEURE NOTICE RECEIVED

As announced on 16 January 2016, Base received a force majeure notice ("**Notice**") from a counterparty to an ilmenite sales agreement ("**Agreement**") seeking to suspend the counterparty's obligations under the Agreement. The Notice is stated to be in response to incidents that have occurred causing significant delays in commissioning the counterparty's slag furnace. The Notice, while providing a preliminary assessment of the extent of the damage caused by the incidents, advises that repairs, further damage assessment and rectification works will be required and that therefore the potential delay is not yet known. The counterparty has committed to working with the Company to seek to mitigate the potential impact of the Notice. In the meantime, the Company will also explore options for selling the ilmenite concerned to other customers.

SAFETY & TRAINING

With no serious injuries occurring during the quarter, Kwale's LTIFR remains at zero. Base employees and contractors have now worked 5.4 million man-hours LTI free, with the last LTI recorded in the March quarter of 2014. There were three incidents requiring medical treatment recorded during the quarter, all of which were minor hand injuries. Fresh initiatives to arrest the rising TRIFR, including the implementation of a behavioral based safety observation program, departmental safety boards and contractor engagement, are underway.



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 governments.

The most recent potato crop has unfortunately suffered from the failure of anticipated seasonal rains in some planting areas. The varietal trials will continue during the next rains, which are expected in May 2016. This will confirm if new varieties can be successful in coastal climatic conditions and increase opportunities for local farmers.

This season's cotton harvest has been very successful with some farmers continuing to harvest into 2016. Ginning will be followed by exporting lint, processing cotton seed oil and developing poultry feed with the remnant seedcake. Interest from other farmers, in areas where cotton was historically grown, has increased considerably with a recently completed community irrigation project now looking to plant cotton in half of their 200 hectare plot. Further training of the farmers' association has been scheduled in the next quarter to assist with the transition to self-management.

The poultry project has reached another milestone with successful rearing of dual-purpose birds. Distribution to local farmers will commence in the next quarter to enhance protein requirements and income generation.

CORPORATE

KWALE PROJECT DEBT FACILITY

In December, Base completed a rescheduling of the Kwale Project Debt Facility ("**Debt Facility**") that establishes a repayment profile more appropriate to the current commodity price environment.

Under the terms of the reschedule, Base paid down US$14 million of the Debt Facility on execution, which, together with the US$11 million repayment in June 2015, reduced the outstanding debt to US$190 million. By extending the tenor of all tranches over the remaining 4.5 years of the Debt Facility, and re-profiling of the repayment schedule, Base has been able to lower its repayments over the next two years, as shown in the table below:

Financial Year	Repayment Date	Pre-rescheduled Debt Facility	Rescheduled Debt Facility	Repayment Date	Pre-rescheduled Debt Facility	Rescheduled Debt Facility
2016	15 December 2015	US$25.1m	US$14.0m*	15 June 2016	US$28.2m	US$9.5m
2017	15 December 2016	US$25.0m	US$15.2m	15 June 2017	US$27.1m	US$11.4m
2018	15 December 2017	US$37.3m	US$20.9m	15 June 2018	US$26.5m	US$26.6m
2019	15 December 2018	US$13.3m	US$26.6m	15 June 2019	US$8.6m	US$26.6m
2020	15 December 2019	US$8.6m	US$26.6m	15 June 2020	US$4.3m	US$26.6m

* Being the loan reduction on execution of the rescheduling.

KENYAN VAT RECEIVABLE

As previously announced, Base 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$20 million at 31 December 2015. These claims are proceeding through the Kenya Revenue Authority process, with a number of operational period claims, totalling approximately US$2 million, settled during the quarter. Base is continuing to engage with Kenyan Treasury and the Kenya Revenue Authority, seeking to expedite the remainder of the refund.

In summary, at 31 December 2015:

- Cash and cash equivalents were A$12.5 million (unrestricted) and A$24.2 million (restricted – debt service reserve account).
- Debt drawn of US$210.0 million.
- 563,902,771 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 Long Term Incentive Plan.

ENDS.

DIRECTORS

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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