This document should be read in conjunction with Base Resources' Quarterly Activities Report dated 28 July, which can be obtained from the company's website, baseresources.com.au/investors/announcements/

Start of Transcript

Operator: Thank you for standing by and welcome to the Base Resources Quarterly Results Investor Briefing. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Tim Carstens, Managing Director. Please go ahead.

Tim Carstens: Thank you and good morning everyone. I am joined on the call today as usual by Stephen Hay, our General Manager of Marketing; Kevin Balloch, our CFO; and James Fuller, our Manager of Communications and Investor Relations.

Just touching on the key themes of this quarter, the first is that the Kwale operations performed exactly to expectations as is pretty much always the case. As a consequence of that we came in at the higher end of FY20 production guidance and we've also now issued production guidance for FY21. We saw ongoing firm demand from customers. We saw some strengthening of ilmenite prices over the course of the quarter and rutile and zircon prices remained pretty much steady.

The Kwale South Dune Mineral Resource and Ore Reserve updates came out yesterday and the catalyst for that was, as a precursor to our annual resource and reserve statement, we needed to update the baseline if you like for the lower ore density that we have experienced since mining commenced. We saw about a 5% reduction in HM tonnes, attributable to the lower bulk density, over the remaining life of that South Dune ore body.

On Toliara we have continued on with the wrap up of the FEED activities that makes sense to complete while we wait for some greater clarity on the future trajectory of that project, based on the resumption of activity in Madagascar and more broadly post-COVID, and we'll talk more about that. We have also continued with lender due diligence, and government discussions in Madagascar have also progressed notwithstanding the challenges.

We continue with our activities to support the vulnerable local communities in both Kenya and Madagascar. I'll give a bit more colour around that in a minute. We ended the quarter in a particularly robust financial position with net cash of a little over US$87 million, and with the addition of the RCF proceeds which we drew down late last quarter of

US$75 million we're sitting with over US$160 million in cash at the moment, which obviously puts us in pretty robust financial shape to weather whatever storm ends up coming our way.

Turning to COVID more specifically and obviously managing our way through this and its impact on the Company's business and the people in our world is the subject of a lot of ongoing close monitoring and our response development. It does take up a reasonable amount of our thinking time, making sure that we've got the right plans in place to deal with pretty much any eventually.

As I said, the Kwale operations maintained operational consistency right through the quarter. We have implemented modified workplace practices like most mining operations have, reducing the onsite workforce, and a range of ongoing hygiene and social distancing measures. To this point we haven't had a confirmed case of COVID in the workforce. Overall, we are continuing to balance employee and community health and safety with operational requirements, government policy, customer demand, financial prudence, a whole range of factors we continue to balance in the way we plan our way forward.

Given the comfort we have in the world that we see ahead of ourselves we felt comfortable to put out full year guidance. Now that's not to say that there couldn't be a whole curtailment of operations at some point if circumstances change, but we feel that, at this point, with the clarity we have, we think we are comfortable to put out that guidance.

If we were to point to one dominant risk factor for us it's probably a dramatic deterioration in the community health profile, in a circumstance where Kwale operations were seen as part of the problem and we lost the support of community to continue to operate. At this stage we're absolutely nowhere near that. We are being very well supported both by government and community so we don't see any real issues there, and we're working pretty closely with the national government to ensure compliance with whatever COVID measures they put in place.

Kenya in particular is very focused on maintaining its economic engine and we are a pretty important part of that as the single largest exporter in the country. On top of keeping our operations ticking along nicely we've got a number of community support initiatives underway, very much focused on providing food, medical, and hygiene equipment, and supplies to vulnerable communities around us in both Kenya and Madagascar, where we are partnering with the government and a few NGOs.

One of the biggest programs over the quarter was the donation of 100 high flow ventilators to the Kenyan Ministry of Health, and we are in the process of procuring another 20 for Madagascar and specifically for down in Toliara to make sure we are supporting our community there. One of the more interesting initiatives we have kicked off is the establishment of a face mask production facility in Toliara. We are producing now and getting up to around 5000 masks per week, which are then being donated to the community. That has received quite a lot of coverage in Madagascar and been very well received in the local community.

So turning more to the operations now and drilling in a bit, we are continuing to achieve really pleasing plant performance in our lower grade high volume operating environment on the South Dune. We have been there for a little over a year now so we have got really good familiarity with the ore body. The mining grade and tonnes were consistent with last quarter, pretty much smack on.

The HMC produced was a little lower but it's really in the noise due to a range of factors, including concentrator recoveries, HMC grade, and various other factors, so just in the noise pretty much consistent with what you would expect with tonnes and grade. Our MSP feed is really constrained now by HMC production and what we would regard as a minimum operating HMC stock level.

The HMC feed came down to 146,000 tonnes this quarter down from 186,000 tonnes. The concentrator is now the constraint in the system on the South Dune, and we saw an average feed rate of 78 tonnes per hour down from the 90 of the prior quarter, predominantly due to the availability of HMC stocks. So we are now down to running a pretty consistent stock level and whatever we can produce becomes the feed for the MSP.

We have maintained high MSP recoveries. Zircon was slightly lower than last quarter but again with the noise. Production was lower for all products and again that's really due to that lower feed rate, as recoveries as I said were pretty much the same. We are going to see those lower production levels as you would see looking at our guidance for next year, as we drop down to a more normal run rate. It will actually be below that 78. We are looking in the guidance assumptions looking at around 66 tonnes per hour.

South Dune Mineral Resource and Reserve, I mentioned that earlier, we've updated that. The predominant factors were obviously depletion from mining and also the 5% reduction due to the bulk density. There are a couple of other mining factors but nothing particularly significant.

We have continued to maintain our tight control of costs. Total costs declined a little bit in the quarter, came down from US$17.7 million last quarter to US$17.2 million, really just lower processing costs and some rehabilitation provision charges, so pretty consistent. The per tonne operating costs, cost of goods sold, and revenue also a function of production, volume, and sales mix. Well certainly the first two are and so with lower production our operating costs per tonne has gone up, as has our cost of goods sold.

Average revenue per tonne was pretty consistent at US$479 compared to the last quarter US$476 due to a very similar sales mix, and as I mentioned pricing has pretty much tracked sideways. Steve will talk more about that in a moment. So we saw an RC ratio of 2.5 for this quarter down from the 2.7 of last quarter with an operating profit of US$290 a tonne, down from US$301 last quarter.

We mentioned the production guidance was achieved for FY20. We headed towards the high end of the range. Rutile came in at 79,000 tonnes, Ilmenite 355,000 tonnes, which was right at the very top end of the guidance range, and zircon came in at 31 tonnes, a bit short of 32,000 tonnes and 32,000 was the top of the range, so it was a really good year.

To put that in context with FY21 production guidance, we're looking at rutile at 70,000 tonnes to 80,000 tonnes, a little lower. Ilmenite a significant degree lower at 270,000 tonnes to 300,000 tonnes, and zircon at 23,000 tonnes to 27,000 tonnes. As I said, the levels that we are guiding are very much – it's based on mining a little bit less, 17.2 million tonnes at a lower average grade in the past, so 3.24%. So we've got lower tonnes and this year we mined 18.1, and the grade at 3.24% next year is lower than this year's 3.63%.

The volume is impacted by a couple of things but the predominant one is the hopper move that we've just completed in July. So you've got the move itself when mining is down and then you've got lower mining rates either side of that, so that's a significant explanation of the 900,000-odd tonnes lower mining that we are predicting in FY21. We will be obviously watching the risk factors I mentioned before around Kwale operations extremely closely and making adjustments to guidance if we feel that is emerging as a likelihood. But at this stage we are pretty comfortable with moving forward with guidance.

Looking at our value enhancement initiatives around Kwale, the predominant focus at the moment is on the North Dune in terms of Kwale mine life extensions. The PFS is underway and that's on schedule for delivery in the March quarter. We are still walking down the path with the Kenyan Government on finalising tenure arrangements for the extension of the SML.

We are extremely close. The biggest issue at the moment is simply that the government is quite rightly focused on some other things in COVID and there's a vastly diminished ministry focused on these things. We had the Principal Secretary for the Ministry of Mining down at site on Friday and he reiterated his commitment to getting this resolved quickly.

He also heard quite loudly from the local community on how important it is for them that the mine life at Kwale gets extended. He is a relatively new Principal Secretary, started in the role in January, and that's the first time he's really heard that as loudly as he did from a community. So it seems to have landed pretty strongly with him.

Turning to safety, we have now clocked just under 21 million man hours without an LTI with the last being in February 2014. We did unfortunately have a medical treatment injury in the quarter. It's the first we have had for 36 months so disappointing but it's not something we internally track. We don't set targets for these things, these are more a product of the way we manage and we do have an exceptional safety culture on site.

We have also been implementing in-house oversight measures with some of our contractors in response to that fatality we had in January. That's been yielding some really good results. We are taking quite strong oversight in terms of a number of aspects of their business, including their maintenance regimes, so we are hopeful that we wouldn't see a repeat of that. We might now turn to the market Steve so I'll hand over to you.

Stephen Hay: Thanks Tim. So we had another very solid quarter for sales and revenue which allowed us to really finish FY20 in very strong shape on the sales front. On the titanium mineral side of the business looking at the pigment industry, which is obviously the main source of demand for our titanium minerals it generally held up really well through the June quarter. I think on the whole it probably did better than what was initially anticipated. There were some pretty pessimistic forecasts coming out around March and April so it probably held up better than was initially expected.

The major pigment plants generally continued to operate at high levels for much of the June quarter, which resulted in that continued firm demand for feed stock, which for us obviously is the rutile and ilmenite. On the supply side for feed stocks the tightness was maintained through the June quarter, and as a result of that we did see some further improvement on the ilmenite prices. As Tim mentioned, rutile prices remained relatively steady as did zircon. I'll get to zircon in a moment.

It's clear that some of the pigment producers have now begun to wind back their production as a result of demand coming off, and it's expected that that's going to impact the demand for feed stocks over the coming months. Ilmenite is expected to move to a more balanced supply and demand situation. But I think the high grade feed stocks going into the chloride sector are likely to trend more to a surplus feed stock position, which is likely to put a bit of pressure on pricing as we move through the second half of 2020.

So moving more specifically to zircon, the June quarter sales all went to plan. There was a small backlog of sales from the March quarter that were all cleared by early April, and then all of the June volumes moved as scheduled and prices did remain consistent with the March quarter. It’s really the same situation as we go into the September quarter. We have now contracted all of our production volume for the third quarter and prices again have remained relatively consistent with the June quarter.

So the underlying demand for zircon I guess has been recovering, as lockdowns have been lifted in various regions but it is still relatively subdued. It’s really the supply management by some of the major zircon producers that has helped balance the market until now, and that’s where we are seeing the stability of pricing I think. So it remains to be seen as we enter into the final quarter of the calendar year as to whether that holds but certainly it seems to be the case as we move through the third quarter.

Tim Carstens: Thanks Steve. Turning to Toliara project, we might just start with where we’re at with government discussions. Just to go backwards a bit, you may remember that back in November 2019 the government required the suspension of all the on ground activities at Toliara, effectively pending discussion on the fiscal terms that would be applicable to the project.

The government then commenced a wider review of the Mining Code and despite some initial missteps they are now - or they started back in December engaging appropriate advice from the World Bank and others, and seem to genuinely be pursuing a proper consultative process. There has been quite a galvanised broad based lobbying effort focused on making sure that that ends up in the right place.

We have continued our positive engagement with government even while they’ve been very heavily focused on COVID response. In the last couple of weeks it’s got even more challenging, basically with all the ministries apart from those directly involved in COVID response effectively being shut down, but we have been able to continue discussions. Where we’ve got to is the government seems to be talking about very sensible fiscal terms, have now encouraged us to lodge our large mine investment regime application, which is the stability mechanism that locks down the fiscal terms for the project.

A bit like the investment agreement we have in Kenya, but to be honest as a framework it's probably better than that investment agreement framework in Kenya. So we are getting close to being ready to lodge that application. There's a lot of documents that have to be translated into French for that but we are certainly heading in the right direction.

So there's a real sense of urgency on the part of government to get this project moving as an investment win for both the new president that really hasn't been able to attract any investment since he took power in January of last year. Also in the context of a COVID relaunch of an economy that's taking a real battering they're seeing this as something that is an early win.

They are certainly being encouraged by a number of international actors to see it that way. The international community has really identified our project as a bit of a bell weather for the investment environment in Madagascar so we've taken on a wider significance than just ourselves. So we are pretty pleased with the way we are moving and I look forward to updating the market more as we move along.

Back in March or in fact in the March quarterly released in April we announced that the FID date for Toliara would naturally be delayed beyond the September 2020 target on which the DFS was based. The primary reasons for that had been the effect of and continuing effect of the government shut down, and the suspension of our activities over an extended period and travel restrictions, meaning we don't have any of our expatriate team in country.

Obviously moving project aspects forward is not possible at the moment and then just the general COVID related uncertainty in financial markets as we head towards financing. So we haven't given any formal guidance on new FID timing and we don't believe it's appropriate to do so until there's greater clarity on a range of those things. In particular in the short term the lifting of restrictions from the government which will come on settling the fiscal terms, and then the resumption of global activity enabling us to get the activity up and moving again. So we are just going to need to be patient and watch that.

Key things we completed in the quarter, the LGIM application was progressed and getting very close to finalisation, it's just going through translation at the moment. A lot of work went into resource planning, schedule and budget reviews, in relation to the delays caused by COVID. So we've now got our organisation in the right shape to move forward in a holding pattern from here.

We've got our plans very clearly articulated so we know what needs to happen and when to get things back up and running. Then as soon as we start to see the clarity coming we can then reasonably quickly work out what an appropriate new FID date would be. So a lot of very good work has gone into that.

I mentioned earlier that we've been continuing to progress some of the FEED activities. It's really focused now on wrapping those up to capture the value that has come from the work that we started rather than starting any new work. So we'll start putting a bow around that work and again holding it in abeyance until we are ready to get going again with some greater clarity on a FID date.

We've also progressing lender due diligence and independent technical experts on the debt financing side. I might get Kevin just a make a couple of comments on where we are at with that process.

Kevin Balloch: Yes, thanks Tim. The technical side of due diligence is largely complete and a very positive report is expected in the next week or two, and the same with the environment and social side of it as well, so obviously well advanced. That's got a little bit more work and does require access to site and to communities, governments, local officials, in order for them to complete that report properly. But an interim report is pretty close to being delivered to lenders.

Right now we are going through a mandating process just getting all the lenders signed up and that will start driving a lot of activity and we are expecting quite a bit of work to start over this quarter and beyond. So the timing of those due diligence reports suits us well.

Tim Carstens: Because the panel of banks has quite a significant DFI involvement, the representatives of these multilateral organisations tend to take quite a while to work their way through these sorts of processes. So in a sense this delay in FID has been a positive and something we are not letting pass us by as an opportunity to really bring them along in a process that's not going to delay us. So there is a positive sitting in that.

Third quarter focus, so next quarter for Toliara, as I said we are looking to get LGIM application lodged this quarter. That will be a very significant milestone for us and I think we'll see a pretty quick response from government to land on an outcome that we can move forward with. We'll be largely wrapping up those FEED activities. There'll be some continuing on into the next quarter but largely drawing to a close over this next quarter. Then once we get some clarity on suspension being lifted there are a couple of processes that are underway that would automatically restart.

One of those is land acquisition. We are in a structured process for that. We are just waiting on a decree from government and then once that happens land acquisition gets completed. So that needs to be wrapped up no matter what. We will also look to get our training programs restarted in country and our community programs would be the two initial priorities, to really help support our local community and maintain the strong level of support they're demonstrating and increasingly demonstrating for the project.

Just a couple of corporate items. The first of those is the net cash position that I talked about earlier. We are in extremely robust shape. The drawdown on the revolving credit facility was a six month draw and we drew that down at the end of March. So the review point for us deciding what we want to do with cash will be – the first review point will be in September, and we'll make a decision based on how we see the COVID landscape and how dark are clouds we see ahead of ourselves but it's nice to have that optionality.

VAT refunds have continued to flow through pretty much maintaining the balance of US$17.9 million. We are continuing to push forward with a plan around the overall VAT and how that feeds into royalty arrangements and various other things with government. That's all tied up with this SML extension so it's a bit of a package that's moving its way through government but we are edging ever closer to being able to put a skewer in all of those issues.

In terms of the next quarter, obviously there's going to be ongoing management of COVID in our world. We are going to see lower production levels in the September quarter and we have a lower grade zone to mine our way through in the FY21 mine plan. We're bringing that MSP feed rate back to 66 tonnes per hour on average based on the HM feed production and maintaining stocks at a comfortable working minimum.

We've got the impact of the hopper move in July which was – particularly in a COVID environment completed absolutely brilliantly by the team. Minimum interruption, no issues, no safety issues, it was extremely well done. Obviously we'll be watching markets pretty closely and prices, as Steve said, prices are under a bit of pressure while demand is sort of hanging in there. It's certainly something we'll be watching very closely and expect to probably see the emergence of a clearer trend I guess over the coming quarter. So with all of that we might turn it over to questions.

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Forward looking statements

Certain statements in or in connection with this transcript contain or comprise forward looking statements. Such statements may include, but are not limited to, statements with regard to capital cost, capacity, future production and grades, 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.