BASE RESOURCES LIMITED

ABN 88 125 546 910

Interim Financial Report
For the six month period ended
31 December 2016

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APPENDIX 4D
RESULTS FOR ANNOUNCEMENT TO THE MARKET

Provided below are the Results for Announcement to the Market in accordance with Australian Securities Exchange (‘ASX’) Listing Rule 4.2A.3 and Appendix 4D for Base Resources Limited and its controlled entities for the half-year ended 31 December 2016 (the ‘reporting period’ or 'half-year') compared with the half-year ended 31 December 2015 (‘the comparative period').

Consolidated results	Movement $000s	$000s
Sales revenue	up $8,925 to	$90,646
Net profit/(loss) before tax	up $15,051 to	$3,832
Net profit/(loss) after tax attributable to members of Base Resources Limited	up $15,098 to	$3,832

Net tangible asset backing	Unit	31 December 2016	31 December 2015
Net tangible assets	$000s	$227,568	$218,296
Shares on issue	number	742,231,956	563,902,771
Net tangible asset per share	$/share	$0.31	$0.39

In accordance with Chapter 19 of the ASX listing rules, net tangible assets per share represent total assets less intangible assets less liabilities ranking ahead of, or equally with, ordinary share capital, divided by the number of ordinary shares on issue at the end of the financial year. Capitalised exploration and evaluation assets have been treated as intangible assets and therefore excluded from the calculation of net tangible assets.

Dividends

No interim dividend has been declared.

Details of entities over which control was gained or lost during the period

None.

Independent auditor’s review report

The Financial Statements upon which this Appendix 4D is based have been reviewed and the Independent Auditor’s Review Report to the members of Base Resources Limited is included in the attached Interim Financial Report.

Commentary

Commentary on the results for the reporting period is contained within the financial statements that accompany this announcement. It is recommended that the half-year report be read in conjunction with the Company’s Annual Financial Report for the year ended 30 June 2016 and any public announcements made by Base Resources during and after the half-year year ended 31 December 2016 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules.

CORPORATE DIRECTORY

DIRECTORS

Mr Keith Spence, Non-Executive Chairman
Mr Tim Carstens, Managing Director
Mr Colin Bwye, Executive Director
Mr Samuel Willis, Non-Executive Director
Mr Michael Anderson, Non-Executive Director
Mr Malcolm Macpherson, Non-Executive Director
Mr Michael Stirzaker, Non-Executive Director

COMPANY SECRETARY

Mr Chadwick Poletti

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DIRECTORS REPORT

Your directors submit the interim financial report of the Group, being the Company, Base Resources Limited, and its controlled entities for the half-year ended 31 December 2016.

Directors

The names of the directors in office at any time during or since the end of the half-year are:

Mr Keith Spence

Mr Tim Carstens

Mr Colin Bwye

Mr Samuel Willis

Mr Michael Anderson

Mr Malcolm Macpherson

Mr Michael *Stirzaker*

Directors have been in office since the start of the financial year to the date of this report.

Company Secretary

Mr Chadwick Poletti held the position of company secretary during the half-year.

Principal Activities and Significant Changes in Nature of Activities

The principal activity of the Group is the operation of the 100% owned Kwale Mineral Sands Operation ("**Kwale Operation**") in Kenya. There were no significant changes in the nature of the Group's principal activities during the period.

Operating Results

The profit for the Group for the half-year after providing for income tax amounted to $3,832,295 (2015: $11,266,168 loss).

Dividends Paid or Recommended

There were no dividends paid or declared for payment during the period ended 31 December 2016.

Review of Operations

Base Resources operates the 100% owned Kwale Mineral Sands Mine ("**Kwale Operation**") in Kenya, which commenced production in late 2013. The Kwale Operation is located 10 kilometres inland from the Kenyan coast and 50 kilometres south of Mombasa, the principal port facility for East Africa.

The Kwale Operation is designed to process ore to recover three separate products – rutile, ilmenite and zircon. Ore is received at the wet concentrator plant ("**WCP**") from the mining units via a slurry pipeline. The WCP removes slimes, concentrates the valuable heavy minerals (rutile, ilmenite and zircon) with a number of gravity separation steps using spiral concentrators and rejects most of the non-valuable, lighter gangue minerals to produce a heavy mineral concentrate ("**HMC**"). The HMC, containing approximately 90% heavy minerals, is then processed in the mineral separation plant ("**MSP**"). The MSP cleans and separates the rutile, ilmenite and zircon minerals into finished products for sale.

In the six months to 31 December 2016 ("**reporting period**"), mining volumes were higher than the six months to 30 June 2016 ("**prior period**"), due to the successful commissioning of a 400 tonnes per hour ("**tph**") Hydraulic Mining Unit ("**HMU**"). The HMU exceeded its design throughput to achieve an average mining rate of 411tph in the reporting period, for total ore tonnes mined of 816,000 tonnes. Combined with the existing dozer trap mining unit ("**DMU**"), which mines higher grade ore while the HMU mines the thinner, lower grade perimeter blocks, a total of 5.4 million tonnes ("**Mt**") of ore was mined in the reporting period (4.8Mt in the prior period) which resulted in a lower blended average ore grade of 6.56% heavy mineral ("**HM**") in comparison with the prior period's 9.41%.

Summary Physical Data	Six months to Dec 2016	Six months to Jun 2016	Six months to Dec 2015
Ore mined (tonnes)	5,374,507	4,773,898	4,428,656
Heavy mineral (HM) %	6.56%	9.41%	7.12%
WCP Heavy mineral concentrate produced (tonnes)	316,451	436,240	298,191
MSP Heavy mineral concentrate consumed (tonnes)	384,925	362,468	346,975
MSP feed rate (tph)	92	85	83
Production (tonnes)			
Ilmenite	238,803	230,100	225,770
Rutile	45,328	42,960	42,694
Zircon	17,641	17,336	14,053
Zircon low grade	4,710	-	-
Sales (tonnes)			
Ilmenite	236,488	246,896	233,642
Rutile	42,796	46,955	38,581
Zircon	17,957	19,145	13,917
Zircon low grade	3,397	-	-

Historically, tailings pump constraints in the WCP have limited mining operations' ability to significantly increase throughput when mining low grade ore. However, recent changes to the tailings pump impellers have delivered a significant increase in their performance and allowed the higher mining volumes and WCP throughput. The higher throughput rates and lower ore grades have had an impact on the WCP recoveries and the required re-optimisation and de-bottlenecking is underway.

As a result of the lower feed grade and lower WCP recoveries, overall WCP production of HMC was lower than the prior period. The HMC stockpile, built up in prior periods to accommodate the planned mining sequence and ore grade, was drawn down by 68,474 tonnes as MSP throughput increased to above design levels following completion of a number of upgrade projects.

MSP optimisation during the reporting period continued to focus on increasing throughput, achieving an average feed rate of 92tph (85tph in the prior period) whilst maintaining a high availability of 95% (96% in the prior period). The higher throughput rates have had a minor impact on product recoveries and the required re-optimisation and de-bottlenecking continues, aimed at improving recoveries and also to ensure maximum value is achieved by balancing primary final product production and zircon concentrate production (for sale).

Rutile production increased to 44,756 tonnes in the reporting period, compared to 42,960 tonnes in the prior period. Lower average recoveries of 96% (100% in the prior period) were offset by the higher MSP throughput and the proportionally higher rutile content of low grade ore mined during the reporting period.

Ilmenite production continued at above design capacity, achieving production of 235,627 tonnes (230,100 tonnes in the prior period), primarily due to the increased MSP feed rate. The higher feed rates were partially offset by the proportionally lower ilmenite content of low grade ore and lower average ilmenite recoveries of 100% (102% in prior period).

Zircon production for the reporting period of 17,641 tonnes, marginally higher than the prior period's 17,336 tonnes, with the improved MSP feed rates offset by lower average zircon recoveries of 73% (78% in the prior period). The lower recoveries were the direct result of circuit optimisation modifications undertaken during the reporting period, necessitated by the higher MSP feed rate, and some electrical voltage instability that resulted in repeated stoppages in the wet zircon circuit, which was resolved at the end of the reporting period.

In addition to primary zircon, during the reporting period, Kwale Operations produced of a lower grade zircon product ("**zircon low grade**") from the re-processing of zircon tails into a zircon rich concentrate, which has historically realised 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. The production of zircon low grade has more than offset the lower primary zircon recoveries in the reporting period.

Bulk loading operations at the Group's Likoni Port facility continue to run smoothly, dispatching more than 280,000 tonnes of ilmenite, rutile and zircon low grade during the reporting period. Containerised shipments of rutile and zircon through the Mombasa Port proceeded according to plan.

With no serious injuries occurring during the period under review, Kwale Operations lost time injury ("**LTI**") frequency rate remains at zero. Base Resources employees and contractors have now worked 8.2 million man-hours LTI free, with the last LTI recorded in February 2014.

The TiO_2 pigment industry continued to strengthen through the reporting period resulting in price improvement and ongoing strong demand for TiO_2 feedstock. This is encouraging and a departure from the traditional seasonal slow-down in the lead up to the end of the calendar year. Global pigment producers announced a series of price increases over the course of calendar 2016, with a number of major producers recently announcing a further price increase effective from 1 January 2017.

TiO_2 feedstock consumption continued to increase throughout the reporting period on the back of firming pigment production and ongoing re-stocking activity within the downstream supply-chain. This led to a very strong sales period for Base Resources' ilmenite and rutile. Prices for Base Resources' ilmenite have increased by over 100% between May and December 2016. The Company continues to secure forward sales and has contracted all ilmenite production through to February 2017, securing further price increases for these sales.

There have been recent reports of political disruption to ilmenite exports from Tamil Nadu in India and suppressed ilmenite production in China's main ilmenite producing region, the Sichuan province, due to increased environmental inspections. These events, together with the ongoing strength in pigment demand, are expected to result in further improvements in ilmenite prices through 2017.

Despite the improvement in demand, an overhang of high grade TiO_2 feedstock (including rutile) supply from the first half of 2016 calendar year restrained rutile price growth through the reporting period. However, higher than expected offtake by major consumers has resulted in supply and demand being more balanced by the end of the reporting period. Base Resources' expectation is for rutile prices to start trending upwards during 2017.

Demand for zircon continued to be solid with minimal stocks being held throughout the reporting period. Zircon prices saw a modest improvement through the latter half of the reporting period and further marginal improvements are being secured for sales in the March 2017 quarter. Provided supply management continues, ongoing gradual upward momentum in zircon prices is expected to occur through 2017.

DIRECTORS REPORT

Review of Financial Performance

Base Resources recorded its maiden profit after tax of $3.8 million for the six-month reporting period, compared with a loss of $11.3 million in the six-month period ended 31 December 2015 ("**comparative period**"), primarily due to higher sales revenues.

	Six months to 31 December 2016			Six months to 31 December 2015		
	Kwale Operations	Other operations	Total	Kwale Operations	Other operations	Total
	$000s	$000s	$000s	$000s	$000s	$000s
Sales Revenue	**90,646**	**-**	**90,646**	**81,721**	**-**	**81,721**
Cost of goods sold excluding depreciation & amortisation:						
Operating costs	(32,500)	-	(32,500)	(34,481)	-	(34,481)
Changes in inventories of concentrate and finished product	(339)	-	(339)	433	-	433
Royalties expense	(6,165)	-	(6,165)	(5,563)	-	(5,563)
Total cost of goods sold [(i)]	**(39,004)**	**-**	**(39,004)**	**(39,611)**	**-**	**(39,611)**
Corporate & external affairs	(2,410)	(2,693)	(5,103)	(1,999)	(2,952)	(4,951)
Community development	(1,303)	-	(1,303)	(2,046)	-	(2,046)
Selling & distribution costs	(1,478)	-	(1,478)	(2,476)	-	(2,476)
Other income / (expenses)	325	(108)	217	(1,778)	(325)	(2,103)
EBITDA [(i)]	**46,776**	**(2,801)**	**43,975**	**33,811**	**(3,277)**	**30,534**
Depreciation & amortisation	(23,467)	(45)	(23,512)	(23,623)	(69)	(23,692)
EBIT [(i)]	**23,309**	**(2,846)**	**20,463**	**10,188**	**(3,346)**	**6,842**
Net financing expenses	(12,509)	(4,122)	(16,631)	(14,010)	(4,051)	(18,061)
Income tax expense	-	-	-	(47)	-	(47)
NPAT [(i)]	**10,800**	**(6,968)**	**3,832**	**(3,869)**	**(7,397)**	**(11,266)**

[(i)] Base Resources' financial results are reported under International Financial Reporting Standards (IFRS). These Financial Statements include certain non-IFRS measures including EBITDA, EBIT and NPAT. These measures are presented to enable understanding of the underlying performance of the Group and have not been audited/reviewed.

Sales revenue was $90.6 million for the reporting period (comparative period: $81.7 million), achieving an average price of product sold (rutile, ilmenite, zircon and zircon low grade) of $302 per tonne or US$227 per tonne ($286 per tonne or US$207 per tonne in the comparative period). Total cost of goods sold, excluding depreciation and amortisation, was $39.0 million for the reporting period (comparative period: $39.6 million) at an average cost of $130 per tonne (US$98 per tonne) of product sold ($138 per tonne or US$100 per tonne in the comparative period). Operating costs per tonne produced was $107 per tonne or US$81 per tonne for the reporting period ($122 per tonne or US$88 per tonne in the comparative period).

With an achieved revenue to cost of sales ratio of 2.3 (comparative period: 2.1), the Company remains well positioned in the upper quartile of mineral sands producers and with expected demand-driven price improvement in calendar year 2017, the ratio is expected to further improve.

DIRECTORS REPORT

Improved sales volumes, commodity prices and a continued focus on cost management has delivered a Kwale Operations EBITDA for the reporting period of $46.8 million ($33.8 million in the comparative period) and a Group EBITDA of $44.0 million ($30.5 million in the comparative period).

A net profit after tax of $10.8 million was recorded by Kwale Operations (loss of $3.9 million in the comparative period) and $3.8 million for the Group (comparative period: loss of $11.3 million). Earnings per share for the Group was 0.52 cents per share (comparative period: loss per share 2.0 cents).

Cash flow from operations was $45.1 million for the reporting period ($26.8 million in the comparative period), slightly higher than Group EBITDA due to working capital movements.

Surplus cash generated by Kwale Operations may be distributed (a "**Cash Sweep**"), in equal parts, as early repayment of the Kwale Operations Debt Facility ("**Kwale Facility**") and to the Australian parent entity, Base Resources Limited ("**BRL**"), on six-monthly intervals as permitted by the terms of the Kwale Facility. In July 2016, a Cash Sweep of US$10.8 million was distributed from the Kwale Operation. Half of the Cash Sweep (US$5.4 million) went towards mandatory repayment of the Kwale Facility, with the other half distributed up to BRL.

During the reporting period, US$20.6 million of the Kwale Facility was paid down through a combination of scheduled debt repayments and Cash Sweeps, reducing the outstanding Kwale Facility debt to US$159.9 million.

Prior to final maturity, under the terms of the Taurus Debt Facility ("**Taurus Facility**") held by BRL, repayments are only required to be made from the proceeds of Kwale Operations Cash Sweeps received by BRL. Of the US$5.4 million Cash Sweep received by BRL in July 2016, a mandatory 50% (US$2.7 million) was applied towards repayment of the Taurus Facility, thereby reducing the outstanding debt to US$17.3 million.

In October 2016, BRL extended the maturity date of the Taurus Facility from 31 December 2016 to 30 September 2017. The extension of the Taurus Facility final maturity date removed the need to secure external funding to repay the balance that would otherwise have been due on 31 December 2016. As part of the extension, the mandatory proportion of Kwale Operations Cash Sweeps to be applied towards progressive repayment of the Taurus Facility increased from 50% to 75%. All other terms of the Taurus Facility remained unchanged, including the interest rate of 10% on the outstanding balance.

Total debt outstanding at 31 December 2016 was $246.0 million (US$177.2 million) compared with $270.3 million (US$200.5 million) at 30 June 2016. Aside from the movements discussed above, the increase in the Australian dollar value of debt has been driven by the fluctuations in the US dollar exchange rates.

The Company's net debt position at 31 December 2016 was $179.7 million (US$129.5 million) compared with $204.2 million (US$151.5 million) at 30 June 2016.

After Balance Date Events

Subsequent to period end, in January 2017, in accordance with the terms of the Kwale Facility, a further Cash Sweep of US$14.6 million was distributed from Kwale Operations. Half of the Cash Sweep (US$7.3 million) went towards mandatory repayment of the Kwale Facility, with the other half distributed up to BRL. The outstanding balance of the Kwale Facility debt after this repayment was $211.9 million (US$152.6 million).

In accordance with the terms of the Taurus Facility extension, a mandatory 75% of the US$7.3 million Cash Sweep received by BRL went towards progressive repayment of the Taurus Facility, reducing outstanding debt to $16.4 million (US$11.8 million), with the balance available to BRL for general corporate funding.

Total outstanding debt following the above repayments was $228.3 million (US$164.4 million).

DIRECTORS REPORT

Rounding

The Group is of a kind referred to in ASIC Class Instrument 2016/191 and in accordance with that Class Order, amounts in the interim financial report and directors' report have been rounded to the nearest thousand dollars, unless otherwise stated.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 11 for the half-year ended 31 December 2016.

This report is signed in accordance with a resolution of the Board of Directors.

Keith Spence

Director

Dated this 27th day of February 2017

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Base Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG.

KPMG

R Gambitta
Partner

Perth

27 February 2017

CONSOLIDATED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Note	6 months to 31 December 2016 $000s	6 months to 31 December 2015 $000s
Sales revenue		90,646	81,721
Cost of sales	2	(62,471)	(63,234)
Profit from operations		28,175	18,487
Corporate and external affairs		(5,148)	(5,020)
Community development costs		(1,303)	(2,046)
Selling and distribution costs		(1,478)	(2,476)
Other income / (expenses)		217	(2,103)
Profit before financing income and income tax		20,643	6,842
Financing costs	3	(16,631)	(18,061)
Profit / (loss) before income tax		3,832	(11,219)
Income tax expense		-	(47)
Net profit / (loss) after tax for the period		**3,832**	**(11,266)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations		6,239	8,833
Total other comprehensive income for the period		6,239	8,833
Total comprehensive income / (loss) for the period		**10,071**	**(2,433)**
Net Earnings / (loss) per share		**Cents**	**Cents**
Basic earnings / (loss) per share (cents per share)		0.52	(2.00)
Diluted earnings / (loss) per share (cents per share)		0.48	(2.00)

The accompanying notes form part of these condensed consolidated interim financial statements.

CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	31 December 2016 $000s	30 June 2016 $000s
Current assets			
Cash and cash equivalents		40,433	36,295
Restricted cash		25,823	29,761
Trade and other receivables	4	43,463	43,544
Inventories	5	28,575	27,962
Other current assets		6,638	5,826
Total current assets		**144,932**	**143,388**
Non-current assets			
Capitalised exploration and evaluation		1,947	1,487
Property, plant and equipment	6	379,170	390,304
Total non-current assets		**381,117**	**391,791**
Total assets		**526,049**	**535,179**
Current liabilities			
Trade and other payables		25,295	24,953
Borrowings	7	67,503	61,816
Provisions		1,208	1,173
Deferred revenue		1,157	1,123
Other liabilities		993	887
Total current liabilities		**96,156**	**89,952**
Non-current liabilities			
Borrowings	7	167,742	196,291
Provisions		30,033	28,973
Deferred revenue		2,603	3,089
Total non-current liabilities		**200,378**	**228,353**
Total liabilities		**296,534**	**318,305**
Net assets		**229,515**	**216,874**
Equity			
Issued capital	8	225,298	223,548
Reserves		60,168	54,780
Accumulated losses		(55,951)	(61,454)
Total equity		**229,515**	**216,874**

The accompanying notes form part of these condensed consolidated interim financial statements.

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Issued capital	Accumulated losses	Share based payment reserve	Foreign currency translation reserve	Total
	$000s	$000s	$000s	$000s	$000s
Balance at 1 July 2015	214,131	(42,319)	7,037	42,669	221,518
Loss for the period	-	(11,266)	-	-	(11,266)
Other comprehensive income	-	-	-	8,833	8,833
Total comprehensive income / (loss) for the period	-	(11,266)	-	8,833	(2,433)
Transactions with owners, recognised directly in equity					
Share based payments	-	728	(7)	-	721
Balance at 31 December 2015	**214,131**	**(52,857)**	**7,030**	**51,502**	**219,806**
Balance at 1 July 2016	223,548	(61,454)	6,775	48,005	216,874
Profit for the period	-	3,832	-	-	3,832
Other comprehensive income	-	-	-	6,239	6,239
Total comprehensive income for the period	-	3,832	-	6,239	10,071
Transactions with owners, recognised directly in equity					
Shares issued during the period, net of costs	1,750	-	-	-	1,750
Share based payments	-	1,671	(851)	-	820
Balance at 31 December 2016	**225,298**	**(55,951)**	**5,924**	**54,244**	**229,515**

The accompanying notes form part of these condensed consolidated interim financial statements.

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Note	6 months to 31 December 2016 $000s	6 months to 31 December 2015 $000s
Cash flows from operating activities			
Receipts from customers		91,447	76,217
Payments in the course of operations		(46,340)	(49,365)
Other		(28)	(95)
Net cash from operating activities		**45,079**	**26,757**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,849)	(3,117)
Other		(135)	(323)
Net cash used in investing activities		**(2,984)**	**(3,440)**
Cash flows from financing activities			
Repayment of borrowings		(32,383)	(19,209)
Transfers from / (to) restricted cash		4,830	(17,379)
Payments for debt service costs and re-scheduling fees		(11,205)	(17,533)
Net cash used in financing activities		**(38,758)**	**(54,121)**
Net increase / (decrease) in cash held		3,337	(30,804)
Cash at beginning of period		36,295	40,906
Effect of exchange fluctuations on cash held		801	2,344
Cash at end of period		**40,433**	**12,446**

The accompanying notes form part of these condensed consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION

Reporting entity

Base Resources Limited is a company domiciled in Australia. The condensed consolidated interim financial statements of the Group for the six-months ended 31 December 2016 comprises the Company and its controlled entities (together referred to as the "**Group**"). The Group is a for-profit entity and primarily is involved in the operation of the Kwale Mineral Sands Mine (“**Kwale Operations**”) in Kenya.

Statement of compliance

The consolidated interim financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134: Interim Financial Reporting.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the consolidated entity for the year ended 30 June 2016 and any public announcements made by Base Resources Limited during the interim financial reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated interim financial report was approved by the Board of Directors on 27 February 2017.

Basis of measurement

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Financial position

The Group held cash on hand and restricted cash (debt service reserve account) as at 31 December 2016 of $66.3 million, net assets of $229.5 million and had a net working capital surplus of $48.8 million, inclusive of $68.9 million of scheduled debt repayments for the Kwale Facility and Taurus Facility due in the 2017 calendar year. Net cash inflows from operating and investing activities for the six-months ended 31 December 2016 was $42.1 million.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows. The achievement of the cash flow forecast is dependent upon mineral sands prices, meeting production output and cost forecasts, and the receipt of Kenyan Value Added Tax refunds as expected.

Should the cash flow forecast not be achieved, the Group may need to seek to extend the final maturity date of the Taurus Facility (refer to Note 7), refinance the facility with another party, raise equity or a combination of these options. The Directors have a reasonable expectation that a funding solution can be secured, if required, in light of the current market conditions for mineral sands, current operating performance of the project and the past capacity of the Group to obtain funding as required.

Functional and presentation currency

These consolidated interim financial statements are presented in Australian dollars, which is the Company's functional currency and all values are rounded to the nearest thousand dollars ($000s) unless otherwise stated. The functional currency for the subsidiaries is United States dollars.

Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are consistent with those applied by the consolidated entity in its annual financial report for the year ended 30 June 2016.

Critical accounting estimates and judgements

The directors make estimates and judgements in the preparation of the financial report that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements for the year ended 30 June 2016.

NOTE 2: COST OF SALES

	6 months to 31 Dec 16 $000s	6 months to 31 Dec 15 $000s
Operating costs	32,500	34,481
Changes in inventories of concentrate and finished goods	339	(433)
Royalties expense	6,165	5,563
Depreciation and amortisation	23,467	23,623
	62,471	**63,234**

NOTE 3: FINANCING COSTS

	6 months to 31 Dec 16 $000s	6 months to 31 Dec 15 $000s
Loss on foreign exchange transactions	1,116	821
Interest income	(116)	(32)
Interest expense, inclusive of withholding tax	10,229	11,946
Unwinding of discount on provision for rehabilitation	282	388
Amortisation of capitalised borrowing costs	3,544	3,333
Financing expenses	1,576	1,605
	16,631	**18,061**

NOTE 4: TRADE AND OTHER RECEIVABLES

	31 Dec 16 $000s	30 Jun 16 $000s
Trade receivables	18,064	18,246
VAT receivables	25,374	25,198
Other receivables	25	100
	43,463	**43,544**

NOTE 5: INVENTORIES

	31 Dec 16 $000s	30 Jun 16 $000s
Current		
Heavy mineral concentrate and other intermediate stockpiles – at cost	6,433	9,054
Finished goods stockpiles – at cost	9,701	6,982
Stores and consumables – at cost	12,441	11,926
	28,575	**27,962**

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2016	Plant & equipment $000s	Mine property and development $000s	Buildings $000s	Capital work in progress $000s	Total $000s
At cost	299,926	205,442	8,854	1,701	518,076
Accumulated depreciation	(84,632)	(49,900)	(2,221)	-	(136,753)
Closing carrying amount	**215,294**	**155,542**	**6,633**	**1,701**	**379,170**
Reconciliation of carrying amounts:					
Balance at 1 July 2016	221,730	159,677	6,748	2,149	390,304
Additions	205	2,445	-	922	3,572
Transfers	1,435	-	-	(1,435)	-
Decrease in mine rehabilitation asset	-	(651)	-	-	(651)
Depreciation expense	(14,717)	(9,449)	(317)	-	(24,483)
Effects of movement in foreign exchange	6,641	3,520	202	65	10,428
Balance at 31 December 2016	**215,294**	**155,542**	**6,633**	**1,701**	**379,170**

As at 30 June 2016	$000s	$000s	$000s	$000s	$000s
At cost	289,626	199,259	8,596	2,149	499,630
Accumulated depreciation	(67,896)	(39,582)	(1,848)	-	(109,326)
Closing carrying amount	**221,730**	**159,677**	**6,748**	**2,149**	**390,304**
Reconciliation of carrying amounts:					
Balance at 1 July 2015	239,058	173,832	6,606	1,487	420,983
Additions	638	117	490	1,872	3,117
Transfers	1,198	-	22	(1,220)	-
Disposals	(46)	-	-	-	(46)
Reduction in mine rehabilitation asset	-	(829)	-	-	(829)
Depreciation expense	(14,260)	(8,943)	(313)	-	(23,516)
Effects of movement in foreign exchange	12,030	6,408	333	76	18,847
Balance at 31 December 2015	**238,618**	**170,585**	**7,138**	**2,215**	**418,556**

NOTE 7: BORROWINGS

	31 Dec 16	30 Jun 16
	$000s	$000s
Current		
Kwale Facility (a)	44,848	35,859
Taurus Facility (b)	24,011	26,962
Capitalised borrowing costs (b)	(6,320)	(4,570)
Amortisation of capitalised borrowing costs (b)	4,473	3,111
Finance lease liabilities	491	454
Total current borrowings	**67,503**	**61,816**
Non-current		
Kwale Facility (a)	177,152	207,473
Capitalised borrowing costs (a)	(23,713)	(23,298)
Amortisation of capitalised borrowing costs (a)	13,947	11,526
Finance lease liabilities	356	590
Total non-current borrowings	**167,742**	**196,291**
Total borrowings	**235,245**	**258,107**

a. Kwale Facility

In November 2011, the Company entered into a debt facility for the development and construction of the Kwale Operation ("**Kwale Facility**"). During the six months to 31 December 2016, US$20.6 million was paid down, reducing outstanding debt to US$159.9 million.

Security for the Kwale Facility is a fixed and floating charge over all the assets of Base Titanium Limited ("**BTL**") and the shares in BTL held by Base Titanium (Mauritius) Limited ("**BTML**") and Base Resources Limited ("**BRL**") and the shares held in BTML by BRL. In addition, BRL provides a parent guarantee which will remain in place until 30 June 2017, subject to finalising a long term operating licence for the Kwale Operations Port Facility. The remaining tenor of all loan tranches is 3.5 years.

All tranches of the Kwale Facility carry interest rates of LIBOR plus 630 basis points, inclusive of political risk insurance. The weighted average effective interest rate on the facilities at 31 December 2016 is 6.98% (30 June 2016: 6.78%), with the difference due to the LIBOR rate.

All transaction costs directly attributable to securing the Kwale Facility funding are capitalised and offset against drawn loan amounts. Capitalised borrowing costs are amortised over the life of the loan using the effective interest rate method.

Subsequent to period end, in January 2017, in accordance with the terms of the Kwale Facility, a Cash Sweep of US$14.6 million was distributed from the Kwale Operations. Half of the cash sweep (US$7.3 million) went towards mandatory repayment of the Kwale Facility, with the other half upstreamed to the parent entity, BRL. The outstanding debt after this repayment was US$152.6 million.

b. Taurus Facility

In December 2014, the Company entered into a US$20 million unsecured debt facility with one of its major shareholders, Taurus Funds Management ("**Taurus Facility**"), to provide the funds to satisfy additional liquidity requirements from the reschedule of the Kwale Facility in 2014.

Prior to final maturity, under the terms of the Taurus Facility, repayments are only required to be made from the proceeds of Kwale Operations Cash Sweeps received by BRL. These Cash Sweeps, when permitted, occur six-monthly with the first having taken place in July 2016 for US$5.4 million. A mandatory 50% of the Cash Sweep was applied towards repayment of the Taurus facility, reducing the outstanding debt at 31 December 2016 to US$17.3 million.

In October 2016, the Company extended the final maturity date of the Taurus Facility from 31 December 2016 to 30 September 2017. The extension removed the need to secure external funding to repay the balance that would otherwise have been due on 31 December 2016. As part of the extension, the mandatory proportion of Kwale Operations Cash Sweeps to be applied towards progressive repayment of the Taurus Facility increased from 50% to 75%. All other terms of the Taurus Facility remained unchanged, including the interest rate of 10% on the outstanding balance. As consideration for the extension, the Company issued Taurus 10 million fully paid ordinary shares.

All transaction costs directly attributable to securing the Taurus Facility are capitalised and offset against drawn loan amounts. Capitalised borrowing costs are amortised over the life of the loan using the effective interest rate method.

Subsequent to period end, in January 2017, a mandatory 75% of the US$7.3 million Kwale Operations Cash Sweep received by BRL went towards repayment of the Taurus Facility, reducing the outstanding debt to US$11.8 million.

NOTE 8: ISSUED CAPITAL

	31 Dec 16 $000s	30 Jun 16 $000s
Ordinary share capital:		
Issued and fully paid	**225,298**	**223,548**

Date	Number	$000s
1 July 2015	563,902,771	214,131
Renounceable entitlement offer	168,329,185	10,100
Share issue costs	-	(683)
30 June 2016	**732,231,956**	**223,548**
1 July 2016	732,231,956	223,548
Shares issued as consideration for Taurus Facility extension (note 7)	10,000,000	1,750
31 December 2016	**742,231,956**	**225,298**

All issued shares are fully paid. The Group does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 9: SEGMENT REPORTING

Identification of reportable segments

The Group's primary activity is running the Kwale Operations in Kenya.

Other operations include the Group head office (which includes all corporate expenses that cannot be directly attributed to the operation of the Kwale Project) and exploration in Kenya and Tanzania.

	6 months to December 2016			**6 months to December 2015**		
Reportable segment	**Kwale Operations**	**Other operations**	**Total**	**Kwale Operations**	**Other operations**	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s
Sales revenue	90,646	-	90,646	81,721	-	81,721
Depreciation and amortisation	(23,467)	(45)	(23,512)	(23,623)	(69)	(23,692)
Financing costs	(12,509)	(4,122)	(16,631)	(14,010)	(4,051)	(18,061)
Reportable profit / (loss)	10,800	(6,968)	3,832	(3,869)	(7,397)	(11,266)
Capital Expenditure	2,849	415	3,264	3,117	11	3,128
	As at 31 December 2016			**As at 30 June 2016**		
Total assets	518,808	7,241	526,049	524,505	10,674	535,179
Total liabilities	273,956	22,578	296,534	292,204	26,101	318,305

NOTE 10: SHARE BASED PAYMENTS

Performance rights

In December 2016, Base granted 11,821,843 performance rights to key management personnel and other senior staff under the Group's long term incentive plan ("**LTIP**"). The LTIP operates on a series of annual cycles. Each cycle commences on 1 October and is followed by a three-year performance period, with a test date on the third anniversary of the commencement of the cycle. The performance rights granted in December 2016, for the cycle commencing on 1 October 2016, have performance conditions consistent with those issued under previous LTIP cycles and vest on 30 September 2019. The fair value of each performance right granted in December 2016 is $0.15.

The 7,518,865 performance rights granted under the LTIP cycle commencing 1 October 2013 completed their three-year performance period on 30 September 2016, with no rights vesting due to the performance conditions not being met and hence lapsed.

NOTE 11: EVENTS SUBSEQUENT TO REPORTING DATE

Other than the January 2017 debt repayments made to the Kwale Facility and Taurus Facility from the proceeds of the US$14.6 million of a Cash Sweep from the Kwale Operations (refer Note 7), there have been no significant events since the interim reporting date.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The interim financial statements and notes, as set out on pages 11 to 21, are in accordance with the Corporations Act 2001 including:

    a. giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the six month period ended on that date; and

    b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. In the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Keith Spence
Director
Dated this 27th day of February 2017

Independent auditor’s review report to the members of Base Resources Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Base Resource Limited, which comprises the consolidated condensed statement of financial position as at 31 December 2016, consolidated condensed statement or profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors’ declaration of the Group comprising the company and the entities it controlled at the half-year’s end or from time to time during the half-year.

Responsibility of the Directors for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group’s financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of base Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Base Resources Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG.

KPMG

R Gambitta
Partner

Perth

27 February 2017