



BASE
RESOURCES



Delivering

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FORWARD LOOKING STATEMENTS

Certain statements made in or in connection with this Annual Report contain or comprise forward-looking statements, including but not limited to statements regarding capital cost, capacity, future production and grades, sales projections and financial performance of the Kwale Operations, estimated mineral resources and ore reserves, trends in commodity prices and currency exchange rates, demand for commodities (in particular mineral sands), plans, strategies and objectives of management, operating costs, anticipated production life of the

Kwale Project, provisions and contingent liabilities and tax and regulatory developments.

Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that are beyond Base Resources' control.

No representation, warranty, assurance or guarantee can be given that such forward-looking statements will in fact be achieved or prove to be correct. Results or outcomes could differ materially from those expressed or implied by the forward-look-

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any liability arising from fault, negligence or negligent misstatement) for any direct or indirect loss or damage arising from any use or reliance on this Annual Report or its contents, including any error or omission from, or otherwise in connection with, it.

Except as required by applicable regulations or by law, Base Resources does not undertake to publicly update, review or release any revisions to these forward-looking statements to reflect new information or future events or circumstances.

Introduction

Base Resources' (ASX & AIM: BSE) successful development of the Kwale Mineral Sands Project in southern Kenya and demonstrated track record of delivering operational, safety and community development achievements, provides a solid foundation to grow a contemporary mid-tier resources company.

An optimised life of mine production profile, highly efficient operation and strong cash generation has Base Resources well placed to capitalise on an improving commodity market and renewed investor interest in the sector.

With tenure secured and a near-mine exploration program underway, mine life extension now presents a significant opportunity for further value creation.

Demonstrated mine development capability provides the basis to deliver further shareholder value from acquisition opportunities.

Highlights



Net debt reduced by A\$76m: from A\$204m in FY16 to A\$128m at the end of FY17, improving financial flexibility



A\$21 million maiden net profit after tax (A\$42 million improvement from 2016)



Outstanding safety record maintained with almost 10 million man-hours completed without a lost-time injury since 2014



Record production for all products -
Rutile: 90,625 tonnes
Ilmenite: 467,359 tonnes
Zircon: 34,228 tonnes
Zircon low grade: 10,210 tonnes



Record A\$215.5 million revenue, an increase of 28%, lifting group EBITDA to A\$110m



US\$255 average sale price achieved per tonne, main driver being the rise in ilmenite prices



Continued strong cost control – average cost maintained at US\$105 per tonne sold



Kwale Phase 2 Project approved to drive enhanced economics over the remaining life of Kwale Operations



Completion of first extensional drilling programme to extend mine life



Chairman's letter

Dear Shareholders,

During the year we have achieved profitability, reduced net debt significantly, initiated exploration in support of mine-life extension and have begun construction of the Kwale Phase 2 project, which will drive enhanced economics over the remaining life of Kwale Operations.

Our Company is in a robust position and is well-placed to take advantage of an improving commodity market with sound long-term fundamentals.

Shareholders will be only too aware that since commencing production three years ago, we have been selling our products into a depressed international pricing environment. Fortunately, our Kwale Operation in Kenya has been able to weather this difficult period, on the back

of its quality ore body, low cost-base and excellent operational track record, to emerge in the right shape to benefit from the strong recovery in the ilmenite price we have experienced over the past 12 months.

It is against this backdrop that I am very pleased to report that for the 2017 financial year, the Base Resources group achieved a maiden net profit after tax of \$21 million and a record EBITDA of \$110m. The strong cashflows have enabled the reduction in net debt by \$76 million to \$128 million (US\$98 million) at year end, the repayment in full of the Taurus debt facility in August and an improving financial flexibility.

Our increased revenues and profitability, are reflective of not just rising realised prices but also of our continued sharp focus on maximised production, operational consistency, innovation and cost management. The year saw record production for all products with over 625,000 tonnes of primary products exported. After three years of relentlessly improving our cost structures, we have locked in these gains and now have a low, tight and predictable operating cost base. The successful introduction of the hydro-mining method, which has proved to be more efficient and flexible than the current dozer trap mining method, particularly when mining the lower grade, peripheral ore blocks, has paved

the way for its progressive adoption as the exclusive mining method over the coming year.

Most importantly, these operational and financial results continue to be achieved with an uncompromising focus on the safety of our people and the operation itself. There were no lost time injuries during the past year and only two medical treatment injuries in the course of 3.1 million hours worked by our employees and contractors. The Kwale Operation has not had a lost time injury since February 2014 and our employees and contractors have now worked almost 10 million man-hours LTI free.

With the Kwale Operation performing to a high standard, a significant focus has shifted to adding value to the assets through optimisation of the remaining life of the mine and the extension of that life. In May, the Board were pleased to approve the Kwale Phase 2 project ('KP2') following completion of a compelling, definitive feasibility study. The KP2 project, the majority of which will be implemented over the course of the 2018 financial year at a capital cost of approximately \$31m, will facilitate the maintaining of production volumes at around the levels currently achieved over the remaining life of the mine through faster mining and processing of Ore Reserves, significantly enhancing



asset economics. The introduction of multiple hydro-mining units and a 69% increase in the number of spiral starts in the wet concentrator plant lie at the core of the project, making it a low risk enhancement project.

The KP2 enhancements increase the importance of, and the value leverage from mine life extensions emerging from the exploration program that is underway. An expanded exploration tenure was secured a little over a year ago and the first drilling campaign was completed around the South Dune during the 2017 financial year. The next phase of drilling, which is planned to commence in early 2018, will be focussed to the north-east of the Central Dune. We are optimistic that further mine life extension will result.

These operational and developmental achievements of the 2017 financial year were made possible by a highly capable, settled and engaged team throughout our organisation. Building on our early success in establishing a strongly Kenyan workforce at the Kwale Operation of around 97%, our structured training and skills development programme is seeing pleasing progression in the quality of jobs, with a further Kenyan appointment to the management team this year.

Representing some 60% of the Kenyan mining industry, our impact reaches well beyond simple employment and

Government revenue. Our model of operations is yielding benefits to Kenya in the areas of supply chain development, safety and industrial training approaches, environmental and community engagement benchmarks, agricultural sector development and mining sector investment promotion, amongst many others. It is in recognition of this broad-based impact and leadership role that in July this year the Kwale Operations were formally granted 'flagship project' status within Kenya's Vision 2030 framework. In doing so, Kenya is explicitly seeking to build on the success of the Kwale Operation as it goes about realising its bold aspirations for what has been a nascent mining industry.

Looking ahead, the 2018 financial year has a positive outlook. Product markets for rutile, ilmenite and zircon have returned to balance with conditions conducive to a continuation of the recent price improvements. Demand is such that we are carrying no inventory from shipment to shipment. On the back of these continuing market conditions we look forward to further substantial inroads in our net debt position.

I believe our Company is soundly positioned with the ingredients in place to drive significant gains in shareholder value. We have an outstanding operating asset in the Kwale Operations with strong cash generation and extensional

potential, an outstanding team with a recognised and growing reputation for successful mineral development, an improving commodity price outlook and opportunities for growth emerging. We are firmly of the view our cash generation and longer-term value proposition have yet to be appropriately appreciated by equity markets. We are working hard to see this change in the year ahead.

I'd like to thank the Board, our people, suppliers, local communities and host governments for the steadfast support and commitment you consistently display. I'd like to particularly thank Michael Anderson who recently left the Board, having made a considerable contribution since joining in 2011 in guiding the company through a transformational period.

Finally, thank you to you our shareholders for your confidence and ongoing support as we drive into what I am confident is an increasingly bright future for Base Resources.

Keith Spence
CHAIRMAN



The successful introduction of hydraulic mining during the year has provided the platform for an increase in mining rate into the future

Operation summary

Base Resources operates the 100% owned Kwale Operations in southern Kenya, which commenced production in late 2013. The Kwale Operations are located 10 kilometres inland from the coast and 50 kilometres south of Mombasa, the principal port facility for East Africa.

MINING

Since the commencement of the project, mining at the Kwale Operations has been based on a conventional dozer trap mining unit ('**DMU**'), using Caterpillar D11T dozers to feed the DMU. The DMU has proved well suited to the Kwale ore, particularly when mining the deeper central blocks of the deposit.

However, when mining the lower grade, thinner perimeter blocks of the ore body, the DMU is unable to achieve the same efficiencies partly due to the need for more frequent relocations between blocks, resulting in increased downtime. As a solution, during the year in review, a 400 tonnes-per-hour ('**tph**') Hydraulic Mining Unit ('**HMU**') was introduced to compliment the DMU. The HMU has proved to be more efficient and flexible than the DMU, particularly when mining the peripheral ore blocks, and this has paved the way for its progressive adoption as the exclusive mining method over the

coming year as part of the Kwale Phase 2 project.

As a result of the dual mining unit strategy, the blended average ore grade dropped to 7.09% heavy mineral ('**HM**') (8.31% HM in the prior year) and mining volumes were consequently increased from 9.2 million tonnes ('**Mt**') last year to 11.0Mt to compensate for the lower ore grade.

PROCESSING

The plants at the Kwale Operations are 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) and rejects most of the non-valuable, lighter gangue minerals. The WCP incorporates a number of gravity separation steps using spiral concentrators. The heavy mineral concentrate ('**HMC**'), containing 90% heavy

minerals, is then processed in the mineral separation plant ('**MSP**'). The MSP cleans and separates the finished rutile, ilmenite and zircon minerals and removes any remaining gangue.

As a consequence of the mining units being directly coupled to the WCP with no intermediary stockpile, as mining volumes vary there is a corresponding change in the ore feed received by the WCP. Historically, tailings constraints in the WCP limited mining operations' ability to significantly increase volume when mining lower grade ore. Following an initial optimisation and debottlenecking process after the introduction of the HMU, a significant increase in the WCP throughput was achieved during the year, allowing mining volumes to push higher without compromising HM recoveries.

However, notwithstanding the higher mined ore volumes achieved, production of HMC still declined to 708,404 tonnes for the year (2016: 734,431 tonnes) due to the overall impact of the lower average ore grade mined with the two mining units.

MSP feed was increased during the year to 764,171 tonnes (2016: 709,443 tonnes) through a combination of WCP production and draw down on the HMC stockpile. The higher MSP feed was made possible by continued optimisation of the MSP, enabling feed rates to increase to 91 tonnes per hour (2016: 85 tonnes per hour), which

resulted in record production levels for all products during the year.

For a more detailed discussion of operating performance refer to the review of operations contained within the Directors Report in the consolidated financial statements on page 26.

KWALE PHASE 2

To counter declining ore grades expected from mid-2018 onwards, and to fully exploit the increase in MSP throughput now available, the Board approved, in May 2017, the implementation of the Kwale Phase 2 Project.

The Kwale Phase 2 project aims to maximise HMC feed to the MSP, and therefore maintain final production volumes at around current levels for the remaining life of mine, by increasing mining rates as ore grade declines. This will be achieved through increasing the hydraulic mining capacity to three 800tph HMU's, while gradually phasing out the existing DMU. This will increase the combined mining rate to 2,400 tonnes per hour, representing an uplift of over 60% compared to the 1,476 tonnes per hour in the year under review. The WCP and water supply infrastructure will be upgraded in parallel to accommodate the higher mining rates.

Refer to the Business Development section on page 14.



Base Resources is committed to prioritising employment for Kenyans, with a strong focus on skills transfer and career development

Sustainability in practice

From project conception through to full-scale production, Base Resources has adopted world-class, sustainable business practices seeking to minimise any negative impacts and maximise positive impacts of its operations for its employees, its host community and more broadly, Kenya.

Base Resources is committed to complying with Kenyan legislation and international best practice, specifically the International Finance Corporation's Performance Standards, the Equator Principles, World Bank Group's Environmental, Health and Safety Guidelines, International Labour Organisation's core labour standards and the United Nations Voluntary Principles on Security and Human Rights.

With this approach, Base Resources is helping to set sound benchmarks for effective and responsible development in Kenya's emerging mining sector.

In recognition of the Company's demonstrated commitment to sustainability in practice, for the second year running, the Kwale Operations was the proud recipient of an award from the Kenyan National Environmental Management Authority for the effort and outcomes in environmental management and biodiversity conservation.

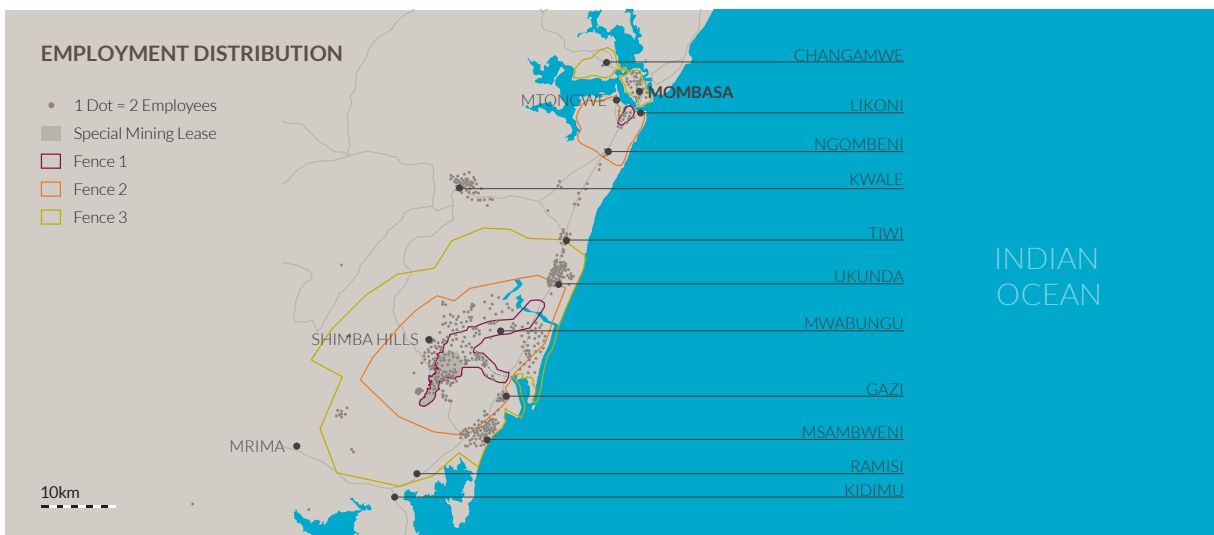
LOCAL EMPLOYMENT

Base Resources is committed to prioritising employment for Kenyans. Our employment system is specifically designed to maximise employment opportunities and project

benefits to local communities by giving preference to project-affected applicants and those residing in the immediate environs of the mine and assign progressively lower priorities to those living further away through a 'fencing' system established in consultation with the Government of Kenya and local community leaders. This system has proved highly effective and of the 972 people directly employed in Kenya, including 699 by Base and 273 by Kenyan service providers contracted to Base in security, transport, catering and analytical laboratory services, 97% are Kenyan,

with 65% drawn from Kwale County. We consider the early achievement of local workforce participation to this extent, in concert with the operational and safety performance demonstrated, in a country with limited mining precedents, to be a significant success of which we are particularly proud.

While expatriates represent just 3% of the total in employment, Base Resources is committed to further reducing its expatriate workforce over the coming years, with a succession programme to ensure the transfer of specialist skills to Kenyan nationals.





SKILLS TRANSFER

Base Resources has structured training and skills transfer programmes covering on-the-job training for permanent employees, and also extending to tailored programmes for graduates, interns, apprentices and high school students, providing a platform for systematic and rapid transfer of knowledge and skills to Kenyans. There are 41 Kenyan interns, graduate trainees and apprentices currently in the Company's training programmes.

The programmes focus not only on employees, but also on building skills capacity in the broader community. To complement classroom learning, Base Resources has partnered with the Technical University of Mombasa to provide opportunities for technical trades apprentices to gain the necessary practical experience in the workplace.

Kenya's National Industrial Training Authority has recognised the value of Base Resources programmes

and has partnered with the Company to assist in the design of co-operative workplace training and development programmes.

In the past three years, Base Resources has committed a considerable budget of \$2.5 million in workforce training and development. This investment reflects the Company's commitment to skills transfer and development of Kenyan staff, for the benefit of not only Base Resources, but also to help build national capacity to underpin the development of Kenya's emerging mining sector.

EMPLOYEE ENGAGEMENT

Base Resources places significant emphasis on establishing and developing a highly engaged, satisfied and motivated workforce, with the operational performance achieved to date, across production, safety and cost management, reflective of our success in developing our human capital.

An integral component of this focus is an independently run annual survey, open to all employees. The objective of the survey is to establish a workplace cultural baseline represented by current worker behaviours and perceptions and identify key areas for improvement and action towards our desired workplace culture, described as the 'Base Way'. Regular surveys have been conducted since the commencement of operations and have seen response rates of between 70% and 80%, a pleasing participation rate for voluntary surveys of this type and indicative of our workforce's engagement and desire to contribute.

In addition to productivity and safety performance, absenteeism, staff turnover and industrial action are key indicators of employee satisfaction and motivation as well as sources of competitive cost advantage. An absenteeism rate of 2.4% was recorded for the year under review, marginally higher than the prior year's 2.3%, but

still well below the 2016 Australian average of 4.1%. The voluntary staff turnover rate for the year in review was also very low at 1.4%, down from the prior year's 1.7%. The Kwale Operations have not recorded any industrial action since commencement of operations.

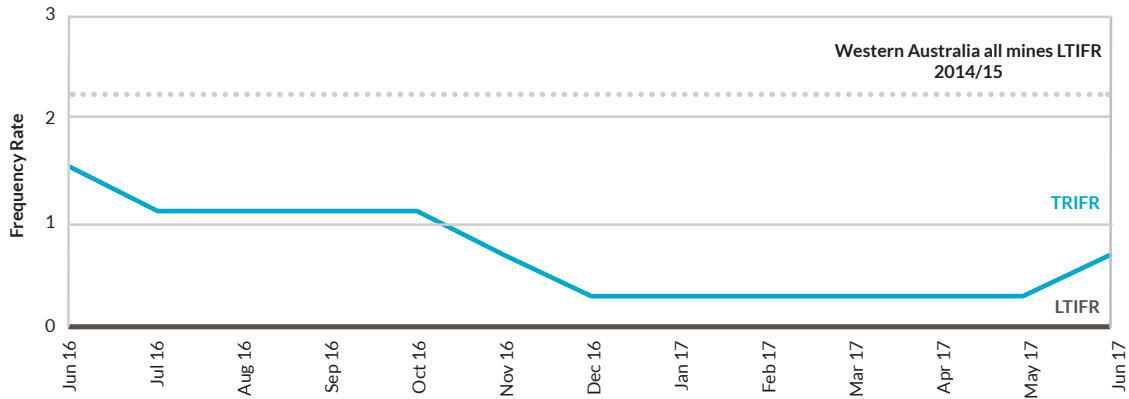
SAFETY

Throughout the construction, commissioning and operation of Kwale, Base Resources has entrenched a first-world, best-practice safety culture. In this regard, Base is very pleased to finish another year with no serious injuries occurring and Kwale Operations' LTIFR has remained once again at zero. Base Resources employees and contractors have now worked almost 10 million man-hours LTI free, with the last LTI recorded in February 2014.

After a concerning rise in minor medical treatment injuries in the early part 2016 financial year, a number of initiatives were successfully implemented and the TRIFR



Lost time injury ('LTIFR1') and total recordable injury ('TRIFR') frequency rates



has since continued to trend steadily downward.

The Kwale Operations' safety performance continues to be an outstanding achievement by first-world mining operation standards, let alone for an emerging mining jurisdiction.

COMMUNITY ENGAGEMENT & DEVELOPMENT

Base Resources understands that achieving its long-term goals is predicated on building beneficial relationships with the communities in which it operates and establishing a balanced flow of mutual benefit.

As communities affected by the Kwale Operations play an integral role in the Company's overall success, Base Resources engages with its local communities in a structured and inclusive manner. In this way, the community benefits from a series of sustainable development and livelihood improvement programmes in

exchange for a social license, practically manifested in the provision of proud, motivated employees, security, support and a positive reference for future projects.

In accordance with Base Resources' Stakeholder Engagement Plan, the Company has established a number of committees to act as an interface between the business and affected communities. This is an important tool for managing expectations, addressing grievances or concerns, and establishes a mechanism for achieving more participatory and inclusive solutions. These committees also play a major role in identifying community development priorities.

The committees are made up of affected stakeholders, community leaders representing women, youth and the disabled, Members of the County Assembly, religious leaders, government and county level lead agencies and administrators. These forums are further supported by several special interest

sub-committees, including one representing the host resettlement site at Bwiti.

Through close collaboration with the liaison committees, community priorities have been identified as capacity building, meeting basic needs such as health and education, and establishing physical infrastructure to improve standards of living.

In targeting these priorities, Base Resources continues to engage in constructing social infrastructure, improving community health, providing educational opportunities, and an increasing emphasis on leading livelihood improvement programmes through the introduction of commercial agriculture. These programmes are aligned with, and integrated into, the Kwale County Government's integrated development plan.

Agricultural livelihood programmes, run in conjunction with partners Business for Development, DEG, FMO, Australia's DFAT and Kenya Red Cross continue to develop with

encouraging support from both national and county Kenyan governments. These programmes, covering cotton, potato and poultry, now involve around 900 smallholder farmers and community groups with the ultimate aim being to establish new agricultural opportunities that will provide economic growth well beyond the life of mining activities.

The Kwale cotton project has proved particularly successful to date, with the number of participating farmers growing exponentially each year since its commencement. After achieving a critical mass this year, a cotton farmers' cooperative was established to assist in the administration of all facets of production and sale. During the year, a consignment of 30 tonnes of Kenyan cotton lint was exported to Bangladesh for further processing on behalf of clothing retailer Cotton On.

Reflecting the quality, scope and potential of these agricultural programmes to drive regional socio-economic



development, additional financial support has been secured with a number of organisations, including the Australian Government and FMO.

In addition to the agricultural livelihood programmes, to date, over 130 individual projects have been completed, including:

- **Schools:** 28 educational infrastructure projects have been undertaken, including construction

of new institutions and refurbishment or upgrading of existing facilities.

- **Medical Facilities:** Constructed and equipped the Bwiti Dispensary and Magaoni Health Centre, and during the year, work was completed on a joint project to build a local hospital-based blood bank facility. Base Resources also worked with the Mombasa County Government and other organisations to complete a maternity wing at the Likoni Sub-County Hospital, incorporating delivery rooms, theatres and in-patient wards, addressing a critical need as expressed by the community. In addition, Base Resources provided a four-wheel-drive ambulance to Kwale County health authorities to service hard to reach communities.

- **Water Supply:** 13 boreholes sunk and fully equipped.
- **School Sports Programmes:** In collaboration with an NGO, Base Resources aims to improve pupils' performance through building and enhancing life skills and environmental awareness using the medium of sport and enjoyment. The programme is currently running in 25 schools and engaging 16,000 students on a weekly basis.
- **Community Health:** Providing training for community health workers, equipping medical facilities and supporting vaccination and general health campaigns.
- **Community Groups Training:** Base Resources provided maritime training for Kibuyuni community located near the Likoni port facility. Together with the Dzarino Community Based Training Organisation, Base Resources runs economic empowerment training programmes for community groups to equip them with basic economic skills to assist in initiating business start-ups and entrepreneurial activities.
- **Scholarships:** During the year, Base Resources continued its own scholarship programme with 1,050 secondary school awards given and 600 tertiary placements supported to date. In addition, partnerships with educational NGO's continue providing support

for a further 550 students at both secondary and tertiary levels.

- **Drought Relief:** During the past year, Kenya has experienced significant drought conditions. Base Resources has assisted the local community in this time of need by providing 29 tonnes of relief food in collaboration with the Kwale County Government, local civil society organisations and Kenya Red Cross.

The Base approach to, and investment in, community development is having real and felt impacts, and consequently, we enjoy strong community support.

ENVIRONMENT

Our community development program is being matched by our high standards of environmental management and performance. The Company operates a comprehensive environmental management system, and has had no environmental incidents during the year under review.

Work progressed on several Base Resources programs aimed at rehabilitating impacted areas, improving local biodiversity, and promoting conservation and sustainability, with some notable examples being:

Rehabilitation of the TSF Walls

Sections of the tailings storage facility ('TSF') sand walls reached full height in the second half of the

year and rehabilitation and stabilisation of the external walls commenced shortly thereafter. Water retention layers and top soil deposition has been completed for a 500 metre stretch and grass seeding is underway. Seeds are collected by, and top soil erosion control materials are sourced from, local women's groups, thereby providing significant incomes for villages surrounding the mine site.

Establishment of a Biodiversity Corridor

Base Resources commitment to operating in a sustainable and environmentally responsible manner includes improving biodiversity and promoting conservation and sustainability in the region. During the year, work continued on the development of a corridor to bridge several remnant patches of indigenous forest within the mining lease to the nearby Gongoni Forest Reserve. Over 47,000 trees propagated in Base Resources' indigenous tree nursery, including more than 8,800 classified as being species of conservation significance and 1,400 classified as critically endangered, have been planted in the designated corridor. This program aims to restore in the Kwale Operations footprint threatened indigenous tree species otherwise lost to the region.

Wetland Restoration

An ephemeral wetland that had remained dry for a number of years prior to the commencement of operations

has been successfully restored.

After locating project infrastructure so as to avoid encroachment into the area, drainage from the TSF was directed to flow into the former wetland and indigenous sedges and other aquatic vegetation planted.

The wetland now provides an ideal habitat for both floral and faunal species of significant conservation importance. Amphibian and reptile monitoring found that the restored wetlands now support permanent populations of the endangered Shimba Hills Reed Frog (*Hyperolius rubrovermiculatus*) and other fauna and flora of conservation importance.

Furthermore, monitoring shows that a number of key insect populations continue to thrive in various wetland areas around the mine site. These insects are a key component in maintaining healthy aquatic environments.

Recycling Programme

Recycling wood, metal and plastic from various applications at the mine site is used by Base Resources recycling team to construct furniture, water tanks, bee hives and children's school knapsacks. These have been donated to nearby schools, community organisations, orphanages and institutions for the disabled.



Business development

Three significant initiatives are underway with the objective of further enhancing the already significant value of the Kwale Operations.

KWALE PHASE 2

Following completion of the Definitive Feasibility Study ('DFS'), the Board has approved implementation of the Kwale Phase 2 project ('KP2') at the Kwale Operations. The DFS confirmed the opportunity for significant improvement in the financial returns for Kwale Operations through further optimisation of the remaining mine life.

The key benefits of KP2 are:

- Bringing forward of revenue by maintaining current production levels for the remainder of the mine life, overcoming the declining ore grades in the current Ore Reserve through the de-constraining of the mine and concentrator plant.
- Faster mining and processing of Ore Reserves over a 24-month shorter period, eliminating approximately US\$60 million in fixed costs, with a commensurate reduction in average operating cost per tonne produced and significantly enhancing project economics compared with the current mine plan.
- Increases the importance of, and value leverage from, potential mine life extensions emerging from the exploration programme that is underway.

Historically, when mining the high-grade areas of the Kwale Central Dune, mining rates of up to 1,400tph have been required to ensure the WCP is fully utilised. To offset the declining ore grades expected from mid-2018, the original mine development plan assumed an increase in the mining rate to 1,800tph. The KP2 pre-feasibility study determined that the optimal mining rate to maximise the economic returns of Kwale Operations was 2,400tph and also identified hydraulic mining as the preferred method to complement the

existing DMU to achieve the targeted mining rate. Operating multiple mining units also has the additional benefit of being able to concurrently mine both the high and low-grade ore, which assists in smoothing the grade profile to create a more consistent feed to the WCP.

In August 2016, as part of the DFS, a 400tph HMU was commissioned to trial the concept. The HMU has proven to be extremely well suited to mining Kwale ore, achieving higher availabilities and at lower unit operating costs than the DMU. Following the success of the HMU trial, the DFS concluded that the optimal mining setup for

Kwale Operations was three HMUs mining at an average rate of 800tph each to give a combined total of 2,400tph.

At the lower ore feed grades and higher mining rates anticipated from mid-2018, the WCP must also be upgraded to maintain optimal heavy mineral recoveries. A comprehensive pilot plant program and spiral modelling work established that a 69% increase in the number of spirals is required to accommodate the mining rates contemplated under the KP2 mining plan. In addition, modifications and equipment upgrades are required to the primary screens, feed de-sliming circuit, tailings cyclones, various pumps and piping. Other than increasing the capacity of the overflow pipework, tests confirm the capability of the two existing thickeners to manage the increased solids loading at the higher KP2 mining rate. Changes to the WCP process flow sheet are minimal. No changes are required to the MSP.

Existing off-site and on-site infrastructure is sufficient to support operations under the KP2 mine plan, with the exception of the water supply infrastructure. The water supply constraints of the KP2 mine plan are largely the product of the daily extraction limits from the Mukurumudzi Dam imposed by licence conditions. To overcome this constraint, the existing Gongoni borefield is being expanded.

Construction is scheduled for completion in the June quarter of 2018 after a one month shut of the WCP to tie in the plant modifications and equipment upgrades. Ahead of the WCP shut, HMC stock levels will be managed to ensure that MSP production continues without interruption during this time.

The implementation schedule will see the second and third 800tph HMUs commissioned in the June quarter of 2018. The three HMUs will ramp up to full capacity (2,400tph) through the course of 2018, with the DMU gradually being phased out over the same period. Engineering and design work for the transition of mining from the Central Dune to the South Dune will commence in mid-2018, with construction completion scheduled for the second half of 2019.

The estimated capital cost to complete the transition from the Central Dune to the South Dune and implement KP2 is US\$32.6 million.

The implementation of KP2, with the resultant increase in mining rates and faster consumption of ore reserves at the Kwale Operations, places a sharp focus on near-mine exploration to extend the life of the mine.

EXTENSIONAL EXPLORATION - KENYA

Drilling in the first of two prospective areas identified on Special Prospecting License 173 ('SPL173'), which now covers an area of 177km² surrounding the Kwale

Operations, was completed during the year. This program, which saw a total of 750 holes for 11,435 metres drilled in the lower-grade Kwale South Dune orebody, successfully delineated mineralised extensions to the south and east of the existing resource boundary and has delivered an overall increase to the Kwale South Dune Mineral Resource estimate of 30% for total material tonnes and 14% for HM tonnes. This first area was prioritised on the basis of needing to be incorporated into the South Dune mine plan ahead of mining commencing in late 2019.

The next phase of exploration drilling, focussed on the north-east sector, adjacent to the high-grade Kwale Central Dune orebody, is expected to commence early in 2018.

In addition, the Company has also applied for an additional SPL covering an area of 136km² 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.

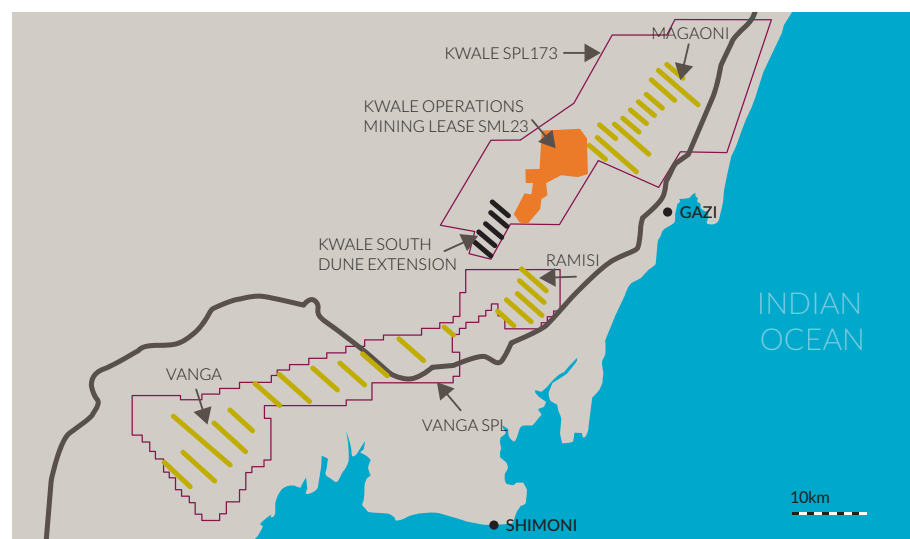
EXTENSIONAL EXPLORATION -

TANZANIA

During the year under review, Base Resources secured exploration tenure over a significant land area in northern Tanzania with the approval of five licenses with a combined area of 475km². The area was identified through a prospectivity review and subsequent confirmatory reconnaissance work. The exploration licenses lie approximately 50km south of the Kenyan border and 100km from Base Resources' Kwale Operations.

The necessary consents and clearances ahead of a planned preliminary stratigraphic drilling programme across all five licenses are in place and field work is scheduled to commence in the coming year.

The location of this tenure presents the opportunity for either standalone project development or satellite development in conjunction with the existing Kwale Operations, giving a wider range to potentially economically viable mineral discovery.



During the 2017 financial year, the Company saw a significant A\$76 million reduction in net debt

Corporate and finance



NET DEBT REDUCTION

During the 2017 financial year, the Company saw a significant \$76.0 million (US\$53.0 million) reduction in net debt made possible by the strong operating cash flows of \$100.2 million generated by the Kwale Operations. Net debt had been reduced to \$128.2 million (US\$98.5 million) at year end.

The surplus free cash generated by the Kwale Operations, after debt servicing, 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, on six monthly intervals as permitted by the terms of the Kwale Facility. During the year, Cash Sweeps totalling

US\$25.4 million were distributed from the Kwale Operation, with half (US\$12.7 million) going towards mandatory early repayment of the Kwale Facility and the other half distributed up to Base Resources Limited. The combination of scheduled debt repayments and Cash Sweeps resulted in repayment of US\$39.3 million of the Kwale Facility during the period, reducing the outstanding balance to US\$141.2 million at year end.

Prior to final maturity, under the terms of the Taurus Debt Facility ('Taurus Facility') held by Base Resources Limited, repayments are only required to be made from the Cash Sweeps received by Base Resources Limited. Of the US\$12.7 million Cash Sweep received by Base Resources Limited, US\$8.2 million was applied towards repayment of

the Taurus Facility, reducing the outstanding balance to US\$11.8 million at year end.

RETIREMENT OF THE TAURUS FACILITY

Subsequent to year end, in July 2017, following the approval of Kwale Facility lenders to waive their entitlement to 50% of the July 2017 Cash Sweep, US\$14.8 million was distributed to Base Resources. Base Resources applied US\$11.8 million of the Cash Sweep to retire the Taurus Facility, with the remainder available for corporate funding.

Under the terms of the waiver granted, the Kwale Facility lenders proportion of future six-monthly Cash Sweeps from Kwale Operations will increase to 75% until the US\$7.4 million waived has been repaid, which is

anticipated to occur over the next 12 months.

KENYAN VAT RECEIVABLE

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\$19.7 million at 30 June 2017. These claims are proceeding through the Kenya Revenue Authority process, with a number of operational period claims, totalling approximately US\$2.4 million, settled during the year under review. Base Resources is continuing to engage with the Kenyan Treasury and the Kenya Revenue Authority, seeking to expedite the remainder of the refund.





Markets, sales and outlook

ILMENITE AND RUTILE

Ilmenite and rutile are primarily used as feedstock for the production of titanium dioxide (TiO_2) pigment, with a small percentage also used in the production of titanium metal and fluxes for welding rods and wire. TiO_2 is the most widely used white pigment because of its non-toxicity, brightness and very high refractive index. It is an essential component of consumer products such as paint, plastics and paper. Pigment demand is the main driver of ilmenite and rutile pricing.

Global consumption of pigment has maintained a long-term average growth rate closely correlated to global GDP growth of approximately 3% per annum. However, volatility in the global economy in recent years has created significant fluctuations in this growth rate, manifesting in big swings in inventory levels throughout the entire pigment supply chain. Excess TiO_2 pigment inventories in the downstream supply chain were finally exhausted by the end of last year, resulting in a significant tightening of the market. Pigment demand continued to strengthen

through the year under review, resulting in a series of price increases over the year, with further pigment price increases taking place through the September 2017 quarter.

The ilmenite feedstock market tightened as demand from the Chinese pigment industry increased rapidly. At the same time supply of ilmenite from major sources remained constrained, including Chinese ilmenite production, which is a by-product of iron ore mining and remained suppressed due to low iron ore prices. In addition, widespread environmental compliance

inspections in the main ilmenite producing region of China (Panzhihua) during the first half of the reporting period led to temporary, and some permanent, closures of several ilmenite operations. In addition, supply of ilmenite from a major producing region in India (Tamil Nadu) has been suspended since the December 2016 quarter, due to political issues. This combination of factors resulted in ilmenite prices increasing strongly throughout the reporting period. Prices for Base Resources' ilmenite increased by over 250% between May 2016 and June 2017.



However, the rapid increase in price drove an influx of ilmenite imports into China through the second half of the reporting period, which, when combined with increasing Chinese domestic ilmenite production, resulted in mounting pressure on prices towards year end. Chinese domestic ilmenite prices retreated through June 2017 and this led to discounting of imported ilmenite prices in the early part of the September 2017 quarter.

A further round of environmental compliance inspections through the September 2017 quarter significantly restricted production of Chinese domestic ilmenite and ilmenite prices have since begun to recover strongly. The resurgent ilmenite price has also been assisted by a significant drop in

ilmenite imports into China from Vietnam during the September 2017 quarter.

Conditions for rutile also continued to tighten through the course of the year under review, although higher inventory levels and some excess production capacity resulted in only modest price improvement towards the end of the 2017 financial year. Since year end, price gains of approximately 10% have been reported for bulk rutile sales for delivery in the first half of the 2018 financial year where contract renewals allow.

In the absence of substantial new feedstock supply coming online, the titanium dioxide feedstock market is expected to remain in a structural supply deficit, providing an opportunity for continued price strength in both ilmenite and rutile over the coming years.

ZIRCON

Zircon has a range of end-uses, the largest of which is in the production of ceramic tiles, which accounts for more than 50% of global zircon consumption. Milled zircon enables ceramic tile manufacturers to achieve brilliant opacity, whiteness and brightness in their products. Zircon's unique properties include heat and wear resistance, stability, opacity, hardness and strength. These properties mean it is also sought after for other applications such as refractories, foundries and specialty chemicals.

Demand growth for zircon is closely linked to growth in global construction and, in particular, the increasing urbanisation of the developing world with both accelerating over the past year or two,

resulting in steady demand for zircon. A sharp decline in zircon prices in the second half of the 2016 financial year led to a fall in production and excess stocks being consumed by downstream users in the first half of the reporting period. Limited inventory of zircon, combined with the strategy of major producers to manage supply to match demand, caused a rapid tightening of the market and by the December 2016 quarter, prices began to increase for the first time since 2012. Firm demand and restricted supply has resulted in zircon prices continuing to improve through the remainder of the reporting period and contracts for the first two quarters of the 2018 financial year have seen successive gains of more than 15% in each quarter.



Resources and reserves

MINERAL RESOURCES

The 2017 Kwale Mineral Resources as at 30 June 2017, are estimated to be 147.3Mt at an average HM grade of 3.5% and 25% slimes containing 5.15Mt HM, based on a 1% HM cut-off grade.

The 2017 Kwale Mineral Resources estimate represents an increase of 12.7Mt or 9% for total material tonnes and a decrease of 0.47Mt or 8% for contained HM tonnes over the previously reported 2016 Kwale Mineral Resources estimate. The 2017 Kwale Mineral Resources estimate factors in depletion by mining of the Central Dune deposit during the year of 12.8Mt of

material containing 0.87Mt of in situ HM and the inclusion of the 2017 Kwale South Dune Mineral Resources update.

The 2017 Kwale South Dune Mineral Resources update was completed after 30 June 2017, but is included in Table 1 for completeness as mining of the South Dune deposit has not yet commenced. The 2017 Kwale South Dune Mineral Resources update reflects the results from extensional and infill drilling completed during the year and adds 25.6Mt of material containing 0.40Mt of in situ HM.

The 2017 Kwale Mineral Resources as at 30 June 2017, are estimated to be 147.3Mt at an average HM grade of 3.5% and 25% slimes containing

5.15Mt HM, based on a 1% HM cut-off grade.

ORE RESERVES

The 2017 Kwale Ore Reserves as at 30 June 2017, incorporates mining depletion for the year and are estimated to be 91.3Mt at an average HM grade of 4.3% and 26% slimes containing 3.90Mt of HM.

The 2017 Kwale Ore Reserves estimate represents a decrease of 11.2Mt or 11% in total ore tonnes and 0.78Mt or 17% in contained HM tonnes over the previously reported 2016 Kwale Ore Reserves estimate, after allowing for depletion by mining of the Central Dune deposit during the year.

Mining has not yet commenced on the South Dune deposit and its Ore Reserve estimate is yet to be updated to reflect the increased 2017 Kwale South Dune Mineral Resources estimate. Work to determine an indicative economic pit shell for the updated 2017 Kwale South Dune Mineral Resource estimate will be undertaken during the 2018 financial year, which will then form the basis for the application to the Kenyan Ministry of Mines (**MoM**) for an extension of mining tenure. This tenure will, preferably, take the form of an extension to the existing Special Mining License 23 or, alternatively, could involve the granting of a new mining license.

Table 1: 1% HM cut-off Mineral Resources estimate for the Kwale Operations at 30 June 2017 compared with the 2016 Mineral Resources estimate.

| CATEGORY | 2017 | | | | | | | | | 2016 | | | | | | | | |
|-------------------------|------------------|-----------------------|-----------|-----------|-----------|---------------|------------|------------|------------------|-----------------------|-----------|-----------|-----------|---------------|------------|------------|--|--|
| | MATERIAL (Mt) | IN SITU HM (Mt) | HM (%) | SL (%) | OS (%) | HM ASSEMBLAGE | | | MATERIAL (Mt) | IN SITU HM (Mt) | HM (%) | SL (%) | OS (%) | HM ASSEMBLAGE | | | | |
| | | | | | | ILM (%) | RUT (%) | ZIR (%) | | | | | | ILM (%) | RUT (%) | ZIR (%) | | |
| CENTRAL DUNE | | | | | | | | | | | | | | | | | | |
| Measured | 24.9 | 1.36 | 5.5 | 24 | 0 | 58 | 13 | 6 | 35.4 | 2.13 | 6.0 | 24 | 0 | 59 | 13 | 6 | | |
| Indicated | 8.3 | 0.32 | 3.9 | 26 | 2 | 58 | 14 | 6 | 10.7 | 0.42 | 3.9 | 26 | 2 | 59 | 14 | 6 | | |
| Total | 33.3 | 1.68 | 5.1 | 25 | 1 | 58 | 14 | 6 | 46.1 | 2.55 | 5.5 | 24 | 1 | 59 | 13 | 6 | | |
| SOUTH DUNE | | | | | | | | | | | | | | | | | | |
| Measured | 81.2 | 2.63 | 3.2 | 25 | 2 | 58 | 13 | 6 | 42.9 | 1.66 | 3.9 | 27 | 2 | 59 | 14 | 6 | | |
| Indicated | 32.7 | 0.84 | 2.5 | 26 | 5 | 53 | 12 | 6 | 40.8 | 1.25 | 3.1 | 26 | 5 | 52 | 13 | 6 | | |
| Inferred | 0.2 | 0.003 | 1.3 | 27 | 2 | 52 | 15 | 7 | 4.8 | 0.16 | 3.2 | 23 | 2 | 57 | 14 | 6 | | |
| Total | 114.1 | 3.47 | 3.0 | 25 | 3 | 57 | 13 | 6 | 88.5 | 3.07 | 3.5 | 26 | 3 | 56 | 13 | 6 | | |
| TOTAL MINERAL RESOURCES | | | | | | | | | | | | | | | | | | |
| Measured | 106.1 | 3.99 | 3.8 | 25 | 1 | 58 | 13 | 6 | 78.3 | 3.79 | 4.8 | 26 | 1 | 59 | 13 | 6 | | |
| Indicated | 41.0 | 1.16 | 2.8 | 26 | 4 | 54 | 13 | 6 | 51.5 | 1.67 | 3.2 | 26 | 4 | 54 | 13 | 6 | | |
| Inferred | 0.2 | 0.003 | 1.3 | 27 | 7 | 52 | 14 | 6 | 4.8 | 0.16 | 3.2 | 23 | 2 | 57 | 14 | 6 | | |
| Total | 147.3 | 5.15 | 3.5 | 25 | 2 | 57 | 13 | 6 | 134.6 | 5.62 | 4.2 | 26 | 2 | 57 | 13 | 6 | | |

Table subject to rounding differences

Table 2: Ore Reserves estimate for the Kwale Operations at 30 June 2017 compared with the 2016 Ore Reserves estimate.

| CATEGORY | 2017 | | | | | | | | | 2016 | | | | | | | | |
|--------------------|-------------|-----------------------|-----------|-----------|-----------|---------------|------------|------------|-------------|-----------------------|-----------|-----------|-----------|---------------|------------|------------|--|--|
| | ORE (Mt) | IN SITU HM (Mt) | HM (%) | SL (%) | OS (%) | HM ASSEMBLAGE | | | ORE (Mt) | IN SITU HM (Mt) | HM (%) | SL (%) | OS (%) | HM ASSEMBLAGE | | | | |
| | | | | | | ILM (%) | RUT (%) | ZIR (%) | | | | | | ILM (%) | RUT (%) | ZIR (%) | | |
| CENTRAL DUNE | | | | | | | | | | | | | | | | | | |
| Proved | 22.6 | 1.30 | 5.7 | 24 | 0 | 59 | 13 | 6 | 32.5 | 2.03 | 6.2 | 24 | 0 | 59 | 13 | 6 | | |
| Probable | 7.1 | 0.29 | 4.1 | 26 | 1 | 59 | 13 | 6 | 8.4 | 0.35 | 4.1 | 26 | 1 | 59 | 13 | 6 | | |
| Total | 29.7 | 1.59 | 5.3 | 24 | 1 | 59 | 13 | 6 | 40.9 | 2.37 | 5.8 | 24 | 1 | 59 | 13 | 6 | | |
| SOUTH DUNE | | | | | | | | | | | | | | | | | | |
| Proved | 38.9 | 1.56 | 4.0 | 27 | 1 | 59 | 14 | 6 | 38.9 | 1.56 | 4.0 | 27 | 1 | 59 | 14 | 6 | | |
| Probable | 22.7 | 0.75 | 3.3 | 26 | 5 | 53 | 13 | 6 | 22.7 | 0.75 | 3.3 | 26 | 5 | 53 | 13 | 6 | | |
| Total | 61.6 | 2.31 | 3.8 | 27 | 3 | 57 | 13 | 6 | 61.6 | 2.31 | 3.8 | 27 | 3 | 57 | 13 | 6 | | |
| TOTAL ORE RESERVES | | | | | | | | | | | | | | | | | | |
| Proved | 61.5 | 2.86 | 4.6 | 26 | 1 | 59 | 14 | 6 | 71.4 | 3.58 | 5.0 | 26 | 1 | 59 | 13 | 6 | | |
| Probable | 29.8 | 1.04 | 3.5 | 26 | 4 | 55 | 13 | 6 | 31.1 | 1.10 | 3.5 | 26 | 4 | 55 | 13 | 6 | | |
| Total | 91.3 | 3.90 | 4.3 | 26 | 2 | 58 | 13 | 6 | 102.5 | 4.68 | 4.6 | 26 | 2 | 58 | 13 | 6 | | |

Table subject to rounding differences

Which of these alternatives eventuates could be expected to have an impact on the fiscal parameters applying to the extensional resources and therefore the economic parameters applied for conversion to Ore Reserves. Consequently, completion of an updated Ore Reserve for the South Dune deposit will be subject to finalisation of mining tenure arrangements with the MoM.

MINERAL RESOURCES & ORE RESERVES GOVERNANCE

A summary of the governance and internal controls applicable to Base Resources Mineral Resources and Ore Reserves processes are as follows:

Mineral Resources

- Review and validation of drilling and sampling methodology and data spacing, geological logging, data collection and storage, sampling and analytical quality control
- Geological interpretation – review of known and interpreted lithology and weathering controls
- Estimation methodology – relevant to mineralisation style and proposed mining methodology
- Comparison of estimation results with previous mineral resource models
- Validation includes visual comparison of block model against raw and composite data

- Use of an external Competent Person to assist in the preparation of field and sample preparation data collection procedures and QA/QC protocols
- Use of external Competent Persons to assist in the preparation and peer review of JORC Mineral Resources updates

Ore Reserves

- Review of potential mining methodology to suit deposit and mineralisation characteristics
- Review of potential Modifying Factors, including cost assumptions and commodity prices to be utilised in mining evaluation
- Ore Reserves updates intimated with material changes in the above assumptions
- Optimisation using appropriate software packages for open pit evaluation
- Design based on optimisation results
- Use of external Competent Persons to assist in the preparation of JORC Ore Reserves updates

COMPETENT PERSONS STATEMENTS

Mineral Resources

The information in this report that relates to Mineral Resources is based on, and fairly represents, information

and supporting documentation prepared by Mr. Richard Stockwell and Mr. Scott Carruthers. Mr. Stockwell is a member of the Australian Institute of Geoscientists and Mr. Carruthers is a Member of The Australasian Institute of Mining and Metallurgy. Mr. Stockwell acts as Consultant Geologist for Base Resources and Mr. Carruthers is employed by Base Resources and owns 147,171 Base Resources shares. Both Mr. Stockwell and Mr. Carruthers have sufficient experience that is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr. Stockwell and Mr. Carruthers consent to the inclusion in this report of Mineral Resource estimates and supporting information in the form and context in which it appears.

Ore Reserves

The information in this report that relates to Ore Reserves is based on, and fairly represents, information and supporting documentation prepared by Mr. Per Scrimshaw (for South Dune deposit) and Mr. Scott Carruthers (for Central and South Dune deposits). Mr. Scrimshaw and Mr. Carruthers are both Members of The Australasian Institute of Mining and Metallurgy. Mr. Scrimshaw



is employed by Entech, a mining consultancy engaged by Base Resources to prepare Ore Reserves estimation for the Kwale Operations. Mr. Carruthers is employed by Base Resources and owns 147,171 Base Resources shares. Mr. Scrimshaw and Mr. Carruthers have sufficient experience that is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr. Scrimshaw and Mr. Carruthers consent to the inclusion in this report of Ore Reserve estimates and supporting information in the form and context in which it appears.



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 Malcolm Macpherson,
Non-Executive Director

Mr Mike Stirzaker,
Non-Executive Director

COMPANY SECRETARY

Mr Chadwick Poletti

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Director's report

Your directors present their report, together with the financial statements of the Group, being the Company, Base Resources Limited, and its controlled entities for the financial year ended 30 June 2017 (the "reporting period") compared with the year ended 30 June 2016 (the "comparative period").

DIRECTORS

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

Mr Keith Spence
Mr Tim Carstens
Mr Colin Bwye
Mr Samuel Willis
Mr Michael Anderson
Mr Malcolm Macpherson
Mr Mike Stirzaker

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

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Chadwick Poletti

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 reporting period.

OPERATING RESULTS

The Group recorded a profit after tax of \$21,030,509 for the reporting period (2016: \$20,918,682 loss).

DIVIDENDS PAID OR RECOMMENDED

There were no dividends paid or declared for payment during the reporting period.

REVIEW OF OPERATIONS

Base Resources operates the 100% owned 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.

During the reporting period, mining operations successfully commissioned a 400 tonnes per hour ("tph") Hydraulic

Mining Unit ('HMU') to more efficiently mine the thinner, lower grade perimeter blocks, while the existing dozer trap mining unit ('DMU') continued to mine the higher grade central ore blocks. As a result of the dual mining unit strategy, the volume of low grade ore mined increased and the blended average

ore grade dropped to 7.09% heavy mineral ('HM') (8.31% HM in the comparative period). Mining volumes were consequently increased from 9.2Mt in the comparative period to 11.0 million tonnes ('Mt') in the reporting period to compensate for the lower ore grade.

| Mining and WCP Performance | 2017 | 2016 |
|---|------------|-----------|
| Ore mined (tonnes) | 11,014,939 | 9,202,554 |
| Heavy mineral (HM) % | 7.09% | 8.31% |
| WCP Heavy mineral concentrate production (tonnes) | 708,404 | 734,431 |

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 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.

Despite the increase in mining volume, production of HMC fell to 708,404 tonnes, lower than the prior period's 734,431 tonnes due to the lower mined ore grade. The HMC stockpile was drawn down during the year to 83,632 tonnes (139,364 tonnes at 30 June 2016) due to the lower HMC production and increased MSP throughput.



To exploit the increase in MSP throughput achieved and counter declining ore grades expected from mid-2018 onwards, in May 2017, following completion of the definitive feasibility study, the board approved implementation of the Kwale Phase 2 ('KP2') project. The objective of the KP2 project is to maximise HMC feed to the MSP, and therefore final production volumes, by increasing mining rates as ore

grade declines. This will be achieved through increasing the hydraulic mining capacity to three 800tph HMU's, with the existing DMU gradually phased out, lifting the combined mining rate to 2,400tph (1,476tph in the reporting period). WCP and tails management will be upgraded in parallel to accommodate the higher mining rates.

| MSP Performance | 2017 | 2016 |
|--|---------|---------|
| MSP feed (tonnes of heavy mineral concentrate) | 764,171 | 709,443 |
| MSP feed rate (tph) | 91 | 85 |
| MSP recovery % | | |
| Ilmenite | 100% | 104% |
| Rutile | 97% | 101% |
| Zircon | 73% | 69% |
| Production (tonnes) | | |
| Ilmenite | 467,359 | 455,870 |
| Rutile | 90,625 | 85,654 |
| Zircon | 34,228 | 31,389 |
| Zircon low grade | 10,210 | - |

Director's report

On-going optimisation of the MSP has continued to yield higher throughput rates with an average of 91tph achieved for the reporting period (85tph in the comparative period), increasing total MSP feed to 764,171 tonnes (709,443 tonnes in the comparative period) and resulting in record production levels for all products during the reporting period.

Ilmenite production continued at above design capacity, achieving production of 467,359 tonnes (455,870 tonnes in the comparative period), primarily due to the increased MSP feed. The higher feed was partially offset by the proportionally lower ilmenite content of low grade ore and lower average ilmenite recoveries of 100% (104% in the comparative period).

Rutile production increased to 90,625 tonnes in the reporting period (85,654 tonnes in the comparative period). Lower average recoveries of 97% (101% in the comparative period) were offset by the higher MSP feed and the proportionally higher rutile content of low grade ore mined during the reporting period.

Zircon production increased to 34,228 tonnes for the reporting period (31,389 tonnes in the comparative period) due to the higher MSP feed and higher average zircon

recoveries of 73% (69% in the comparative period).

In addition to primary zircon, during the reporting period the Kwale Operation produced a lower grade zircon product ("zircon low grade") from the re-processing of run-of-production and stockpiled zircon circuit tails into a zircon rich concentrate. Sales of this zircon low grade product have 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. When combined with primary zircon recoveries, the production of zircon low grade has effectively lifted total zircon recoveries well above the design target of 78%.

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 9.7 million man-hours LTI free, with the last LTI recorded in February 2014.

Base Resources has a number of off-take agreements across each of its three products with some of the world's largest consumers of titanium dioxide minerals and zircon products, including a cornerstone agreement with Chemours for the majority of our rutile production. These agreements provide off-take security for the Kwale Operation, and contain firm minimum annual offtake volumes. All sale values are derived from prevailing market prices, based on agreed price indices or periodic price negotiations, with some agreements offering downside protection in the form of floor prices.

In the reporting period, Base Resources sold more than 635,000 tonnes of product from the Kwale Operation, with shipments being made to a combination of customers with existing offtake agreements, regular customers buying on a spot basis and casual spot customers.

The Company continues to build its market presence in China – the world's largest ilmenite market – with over

500,000 tonnes of ilmenite sold into the Chinese market during the reporting period. Solid relationships with major Chinese ilmenite consumers have ensured regular sales through a mix of shorter term contracts (one to three-year duration) and spot sales.

MARKET DEVELOPMENTS AND OUTLOOK

Titanium Dioxide

Ilmenite and rutile are primarily used as feedstock for the production of titanium dioxide ('TiO₂') pigment, with a small percentage also used in the production of titanium metal and fluxes for welding rods and wire. TiO₂ is the most widely used white pigment because of its non-toxicity, brightness and very high refractive index. It is an essential component of consumer products such as paint, plastics and paper. Pigment demand is therefore the main driver of ilmenite and rutile pricing.

| Marketing and sales | 2017 | 2016 |
|---------------------|---------|---------|
| Sales (tonnes) | | |
| Ilmenite | 501,676 | 480,538 |
| Rutile | 91,991 | 85,536 |
| Zircon | 34,566 | 33,062 |
| Zircon low grade | 9,501 | - |

Global consumption of pigment has maintained a long-term average growth rate closely correlated to global GDP, or approximately 3% per annum. However, volatility in the global economy in recent years has created significant fluctuations in this growth rate, manifesting in big swings in inventory levels throughout the entire pigment supply chain. Excess pigment inventories in the downstream supply chain were finally exhausted by the end of the 2016 financial year, resulting in a significant tightening of the market.

The TiO₂ pigment industry continued to strengthen through the reporting period resulting in price improvement and strong demand for TiO₂ feedstock. Pigment inventory levels have fallen below normal levels and pigment plants have moved to maximise their utilisation rates. Global pigment producers announced a series of price increases over the course of the reporting period, with further pigment price increases secured during the early part of the 2018 financial year.

The ilmenite feedstock market became heavily constrained as demand from the Chinese pigment industry increased rapidly and supply of ilmenite from various major sources was limited. A struggling iron ore price has suppressed ilmenite production in China as most Chinese ilmenite production is a by-product of iron ore mining. In addition, widespread environmental compliance inspections in the main ilmenite producing region of China (Panzhuhua) during the first half of the reporting period led to temporary and permanent closures of a number of operations. Supply of ilmenite

from a major producing region in India (Tamil Nadu) has been suspended since the December 2016 quarter, as a result of political issues. A combination of these factors resulted in ilmenite prices increasing strongly throughout the reporting period. Prices for Base Resources' ilmenite increased by over 250% between May 2016 and June 2017.

The rapidly increasing price drove an influx of ilmenite imports into China through the first half of calendar year 2017, which, when combined with increasing Chinese domestic ilmenite production, resulted in mounting pressure on prices towards the end of the reporting period. Chinese domestic ilmenite prices retreated through June 2017 and this has led to discounting of imported ilmenite prices in the early stages of the 2018 financial year. However, a further round of environmental compliance inspections again appears to be restricting production of Chinese domestic ilmenite and by the end of July 2017, there were signs that the Chinese domestic ilmenite price had stabilised.

Conditions for rutile continued to tighten through the course of the year. Inventory levels and some excess production capacity resulted in only modest price improvement through the latter part of the reporting period but conditions look positive for solid price gains in financial year 2018.

In the absence of substantial new feedstock supply coming online, the titanium dioxide feedstock market is expected to remain in structural supply deficit, providing an opportunity for continued price strength in both ilmenite and rutile over the coming years.

Zircon

Zircon has a range of end-uses, the largest of which is in the production of ceramic tiles, which accounts for more than 50% of global zircon consumption. Milled zircon enables ceramic tile manufacturers to achieve brilliant opacity, whiteness and brightness in their products. Zircon's unique properties include heat and wear resistance, stability, opacity, hardness and strength. These properties mean it is also sought after for other applications such as refractories, foundries and specialty chemicals.

Demand growth for zircon is closely linked to growth in global construction and increasing urbanisation in the developing world. These growth factors have improved over the past year or two resulting in steady demand for zircon. A sharp decline in zircon market prices in the second half of the 2016 financial year led to a fall in production and the excess stocks were consumed by downstream users in the first half of the reporting period. Limited inventory of zircon, combined with the strategy of major producers to manage supply to match demand, resulted in a rapidly tightening market and by the December quarter of the reporting period, prices began to increase for the first time since 2012. Firm demand and restricted supply has resulted in zircon prices continuing to improve through the remainder of the reporting period and contracts for the early part of the 2018 financial year have seen further strong gains.

Director's report

REVIEW OF FINANCIAL PERFORMANCE

Base Resources recorded its maiden profit after tax of \$21.0 million for the reporting period, compared with a loss of \$20.9 million in the comparative period, primarily due to higher sales revenues.

| | 2017 | | | 2016 | | |
|--|---------------------------|----------------------------|-----------------|---------------------------|----------------------------|-----------------|
| | Kwale Operation \$000s | Other operations \$000s | Total \$000s | Kwale Operation \$000s | Other operations \$000s | Total \$000s |
| Sales Revenue | 215,495 | - | 215,495 | 169,039 | - | 169,039 |
| Cost of goods sold excluding depreciation & amortisation: | | | | | | |
| Operating costs | (68,735) | - | (68,735) | (69,647) | - | (69,647) |
| Changes in inventories of concentrate and finished product | (5,033) | - | (5,033) | (5,066) | - | (5,066) |
| Royalties expense | (14,782) | - | (14,782) | (11,845) | - | (11,845) |
| Total cost of goods sold ⁽ⁱ⁾ | (88,550) | - | (88,550) | (86,558) | - | (86,558) |
| Corporate & external affairs | (5,238) | (5,617) | (10,855) | (4,309) | (6,840) | (11,149) |
| Community development | (3,588) | - | (3,588) | (3,921) | - | (3,921) |
| Selling & distribution costs | (2,690) | - | (2,690) | (4,114) | - | (4,114) |
| Other income / (expenses) | 468 | (590) | (122) | (2,151) | (580) | (2,731) |
| EBITDA ⁽ⁱ⁾ | 115,897 | (6,207) | 109,690 | 67,986 | (7,420) | 60,566 |
| Depreciation & amortisation | (49,567) | (64) | (49,631) | (47,062) | (127) | (47,189) |
| EBIT ⁽ⁱ⁾ | 66,330 | (6,271) | 60,059 | 20,924 | (7,547) | 13,377 |
| Net financing expenses | (25,568) | (5,655) | (31,223) | (27,247) | (7,009) | (34,256) |
| Income tax expense | (7,805) | - | (7,805) | (40) | - | (40) |
| NPAT ⁽ⁱ⁾ | 32,957 | (11,926) | 21,031 | (6,363) | (14,556) | (20,919) |

(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.

Sales revenue was \$215.5 million for the reporting period (comparative period: \$169.0 million), achieving an average price of product sold (rutile, ilmenite, zircon and zircon low grade) of \$338 or US\$255 per tonne (\$282 or US\$205 per tonne

in the comparative period), with the main driver being the rising ilmenite price. Total cost of goods sold, excluding depreciation and amortisation, was \$88.6 million for the reporting period (comparative period: \$86.6 million) at an average cost of \$139 or

US\$105 per tonne of product sold (\$144 or US\$105 per tonne in the comparative period). Operating cost per tonne produced remained steady at \$114 or US\$86 per tonne for the reporting period (\$121 or US\$88 per tonne in the comparative period).

With an achieved revenue to cost of sales ratio of 2.4 (comparative period: 2.0), the Company remains well positioned in the upper quartile of mineral sands producers.

Improved sales volumes, commodity prices and a continued focus on cost management has delivered a Kwale Operations EBITDA for the reporting period of \$115.9 million (\$68.0 million in the comparative period) and a Group EBITDA of \$109.7 million (\$60.6 million in the comparative period).

A net profit after tax of \$33.0 million was recorded by Kwale Operations (loss of \$6.4 million in the comparative period) and \$21.0 million for the Group (comparative period: loss of \$20.9 million). Earnings per share for the Group was 2.85 cents per share (comparative period: loss per share 3.41 cents).

Cash flow from operations was \$100.2 million for the reporting period (\$78.6 million in the comparative period), slightly lower 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, on six-monthly intervals as permitted by the terms of the Kwale Facility. In July 2016 and January 2017, Cash Sweeps of US\$10.8 million and US\$14.6 million respectively were distributed from the Kwale Operation. Half of the combined Cash Sweeps (US\$12.7 million) went towards mandatory early repayment of the Kwale Facility, with the other half distributed up to Base Resources.

During the reporting period, US\$39.3 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\$141.2 million.

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

In October 2016, Base Resources 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.

In January 2017, US\$7.3 million was received by Base Resources from the proceeds of the Kwale Operations Cash Sweep and a mandatory 75% (US\$5.5 million) was applied towards repayment of the Taurus Facility, thereby reducing the outstanding debt to US\$11.8 million.

Total debt outstanding at 30 June 2017 was \$199.0 million (US\$153.0 million) compared with \$270.3 million (US\$200.5 million) at 30 June 2016. The Company's

net debt position, once cash and restricted cash are incorporated, at 30 June 2017 was \$128.2 million (US\$98.5 million) compared with \$204.2 million (US\$151.5 million) at 30 June 2016.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the Group during the financial period.

AFTER BALANCE DATE EVENTS

Subsequent to year end, on 14 July 2017, following the approval of Kwale Facility lenders to waive their entitlement to 50% of the July 2017 Cash Sweep, US\$14.8 million was distributed up to Base Resources. Base Resources applied US\$11.8 million of the Cash Sweep to retire the Taurus Facility, with the remainder available for corporate funding.

Under the terms of the waiver granted, the Kwale Facility lenders proportion of future six-monthly Cash Sweeps from Kwale Operations will increase to 75% until the US\$7.4 million waived has been repaid.

Repayment of the Taurus Facility reduces total debt outstanding to \$183.7 million (US\$ 141.2 million).

There have been no other significant after balance date events at the date of this report.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Base Resources strategy is to continue to optimise the Kwale Operation whilst

pursuing growth from internal and external opportunities.

INFORMATION ON DIRECTORS

MR KEITH SPENCE
Non-Executive Chairman

Qualifications: BSc
(Geophysics) (Hons)

Appointed: 20 February 2015
(Appointed as Non-Executive Chairman on 19 May 2015)

Experience: Mr Spence has over 30 years of experience in the oil & gas industry with Shell and Woodside. He retired from Woodside in 2008 after 14 years in senior executive roles including Chief Operating Officer and acting Chief Executive. Mr Spence is currently a Non-Executive Director of Oil Search Limited, Independence Group NL and Murray & Roberts Holdings Ltd (listed on JSX). Mr Spence was also Chairman of Clough Limited before its acquisition in late 2013.

Special Responsibilities: Chairman of the Board; Chairman of the Remuneration & Nomination Committee; member of the Risk Committee; member of the Audit Committee; member of the Taurus Refinancing Committee.

Other current public company directorships: Independence Group NL (since 2014); Oil Search Limited (since 2012); Murray and Roberts Holdings Ltd (since 2015).

Past public company directorships held over the last three years: Geodynamics Limited (now ReNu Energy Limited) (resigned 2016); Clough Limited (resigned 2013).

Director's report

MR TIM CARSTENS

Managing Director

Qualifications: BCom, ACA

Appointed: 5 May 2008

Experience: Mr Carstens brings a diverse and substantial skill set to the development of Base Resources, having previously held senior executive roles with Perilya Limited, North Limited, Robe River Iron Associates, Iron Ore Company of Canada and St Barbara Mines Limited in operations, strategy, corporate development and finance, both in Australia and overseas. A chartered accountant by profession, he has successfully managed all aspects of business strategy development and implementation, acquisitions and divestments, debt and equity financing, organisational development and operational performance. Mr Carstens is also the Chairman of the Australia-Africa Minerals and Energy Group (AAMEG), the peak body representing Australian companies engaged in the development of Africa's resource industry.

Special Responsibilities: Managing Director; member of the Taurus Refinancing Committee.

Past public company directorships held over the last three years: None.

MR COLIN BWYE

Executive Director –
Operations & Development

Qualifications: BEng (Hons)

Appointed: 12 July 2010

Experience: Mr Bwye has over 25 years' experience in the mineral sands sector, having commenced his professional career with RGC Mineral Sands (since consolidated into Iluka Resources) as a plant metallurgist in 1988. He undertook a number of technical, production and mining roles within RGC and then, after a period of time consulting to the industry, joined Doral Mineral Industries, a subsidiary of Iwatani Corporation of Japan. Here he was a leader in the development and operation of the Dardanup mineral sands mine in Western Australia before taking on the role of managing director and becoming accountable for the fused materials (zirconia and alumina) processing facilities as well as the mineral sands operation. In 2010 Mr Bwye joined Base Resources as Executive Director – Operations and Development. Mr Bwye has an extensive knowledge of all aspects of the mineral sands industry, including downstream processing and marketing of mineral sands products. He was born in Kenya and lived there prior to migrating to Australia in 1987 and so brings a deep understanding of the country and its culture.

Special Responsibilities:

Executive Director –
Operations & Development.

Past public company directorships held over the last three years: None.

MR SAMUEL WILLIS

Non-Executive Director

Qualifications: BCom

Appointed: 23 May 2007

Experience: Mr Willis is an experienced company director in the resources and energy sectors and is currently a director of Checkside (a consulting firm that specialises in Strategic HR, Recruitment and Leadership), as well as non-executive director of oil and gas explorer Elixir Petroleum Limited. Mr Willis provides Base Resources with in excess of 15 years' experience and expertise in capital markets, corporate finance and executive board involvement with emerging small and mid-cap companies.

Special Responsibilities:

Chairman of the Audit Committee; member of the Remuneration & Nomination Committee; member of the Risk Committee; member of the Taurus Refinancing Committee.

Other current public company directorships: Elixir Petroleum Limited (since 2013).

Past public company directorships held over the last three years: New Standard Energy Limited (retired 2016).

MR MICHAEL ANDERSON

Non-Executive Director

Qualifications:

BSc (Hons), PhD

Appointed:
28 November 2011

Experience: Mr Anderson has over 20 years' industry experience, largely in southern Africa and Australia. His career commenced as a geologist with Anglo American, followed by roles in the metallurgical and engineering industries with Mintek, Bateman and Kellogg Brown & Root. He subsequently held senior management positions including Corporate Development Manager at Gallery Gold Limited, and Managing Director at Exco Resources Limited, where he oversaw the successful development of the White Dam Gold Project, and the sale of the Company's Cloncurry Copper Project to Xstrata. He joined Taurus Funds Management as a Director in August 2011. Taurus is a major shareholder of Base Resources, with Mr Anderson appointed as Taurus' nominee on the Base Resources Board.

Special Responsibilities:

Member of the Audit Committee.

Other current public company directorships: Hot Chili Limited (since 2011); Finders Resources Limited (alternate, since 2016).

Past public company directorships held over the last three years: Ampella Mining Limited (resigned 2014); PMI Gold Limited (resigned 2014); Heemskirk Consolidated Limited (resigned 2017).

MR MICHAEL STIRZAKER
Non-Executive Director

Qualifications: BCom, ACA

Appointed: 19 November 2014 (previously acting as an alternate since November 2011)

Experience: Mr Stirzaker has over 30 years' commercial experience, mainly in mining finance and mining investment. He began his career in Sydney as a Chartered Accountant with KPMG, having obtained a Bachelor of Commerce from the University of Cape Town. He moved into investment banking with Wardley James Capel (part of the HSBC Group) and then Kleinwort Benson Limited in London. From 1993 to 2007 he was part of the natural resource advisory and investment firm, RFC Group Limited, where he became Joint Managing Director. He has also been a

shareholder and Director of Tennant Metals Pty. Limited, a privately owned physical metal trader and investor, and was the Finance Director of Finders Resources Limited, an ASX listed company producing copper in Indonesia. In 2010, Mr Stirzaker joined the private equity mining fund manager, Pacific Road Capital Management as a partner. The Pacific Road Resources Fund II is a major shareholder of Base Resources, with Mr Stirzaker appointed as its nominee on the Base Resources Board.

Special Responsibilities: Member of the Remuneration & Nomination Committee; member of the Risk Committee.

Past public company directorships held over the last three years: Nil.

MR MALCOLM MACPHERSON
Non-Executive Director

Qualifications: B.Sc. FAusIMM, FTSE

Appointed: 25 July 2013

Experience: Mr Macpherson is an accomplished business leader, with decades of experience in the global

mining industry at executive management and board level. Mr Macpherson spent 25 years from 1974 at Iluka Resources Limited, the world's largest mineral sands company, rising from mine manager to Managing Director and Chief Executive Officer. He has previously held the position of Chairman with Azumah Resources Limited and Western Power Corporation and been a director of Portman Mining Limited and Minara Resources Limited. Mr Macpherson has also been the Senior Vice President of the Minerals Council of Australia, President of the Western Australian Chamber of Minerals & Energy, and a member of the Senate at Murdoch University.

Special Responsibilities: Chairman of the Risk Committee; member of the Remuneration & Nomination Committee; member of the Audit Committee.

Other current public company directorships: Nil.

Past public company directorships held over the last three years: Pluton Resources Limited (Chairman) (resigned 2013); Titanium

Corporation Inc. (resigned 2014); Bathurst Resources (New Zealand) Limited (resigned 2015).

COMPANY SECRETARY

MR CHADWICK POLETTI

Qualifications: LLB (Hons), BCom

Appointed: 19 May 2015

Experience: Mr Poletti is a practising lawyer and holds a Bachelor of Commerce majoring in Finance and Accounting. Mr Poletti has broad experience in advising directors of listed and unlisted public companies in relation to directors' duties, the Corporations Act, the ASX Listing Rules, the AIM Rules for Companies and corporate governance.

Prior to joining Base Resources, Mr Poletti was a senior associate at international law firm, Ashurst, where he specialised in both domestic and cross-border regulated and unregulated mergers and acquisitions, including takeovers and schemes of arrangement, capital raisings and corporate advisory and governance.

MEETINGS OF DIRECTORS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as shown in the table below:

| | Directors' Meetings | | Audit committee | | Remuneration & Nominations Committee | | Risk Committee | | Taurus Refinancing Committee | |
|--------------------|--------------------------------|-------------------|--|-------------------|--|-------------------|--|-------------------|--|-------------------|
| | Meetings held while a director | Meetings attended | Meetings held while a committee member | Meetings attended | Meetings held while a committee member | Meetings attended | Meetings held while a committee member | Meetings attended | Meetings held while a committee member | Meetings attended |
| Keith Spence | 15 | 14 | 4 | 4 | 4 | 4 | 3 | 3 | 4 | 4 |
| Tim Carstens | 15 | 15 | - | - | - | - | - | - | 4 | 4 |
| Colin Bwye | 15 | 15 | - | - | - | - | - | - | - | - |
| Samuel Willis | 15 | 14 | 4 | 4 | 4 | 4 | 3 | 3 | 4 | 4 |
| Michael Anderson | 15 | 15 | 4 | 4 | - | - | - | - | - | - |
| Malcolm Macpherson | 15 | 15 | 4 | 4 | 4 | 4 | 1 ⁽ⁱ⁾ | 1 | - | - |
| Michael Stirzaker | 15 | 14 | - | - | 4 | 4 | 3 | 3 | - | - |

(i) Appointed as Risk Committee Chairman from 1 February 2017

Director's report

INDEMNIFYING OFFICERS

During or since the end of the financial year, Base Resources has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums to insure its directors and officers against certain liabilities incurred while acting in that capacity. The contracts of insurance prohibit disclosure of details of the policies or the premiums paid.

The Company's Constitution provides that, subject to and so far as permitted by applicable law, the Company must indemnify every officer of the Company and its wholly owned subsidiaries against a liability incurred as such an officer to a person (other than the Company or a related body corporate) including a liability incurred as a result of appointment or nomination by the Company or subsidiary as a trustee or as an officer of another corporation, unless the liability arises out of conduct involving a lack of good faith.

Consistent with the rules of the Company's Constitution, the Company or its subsidiary companies (as applicable) has also granted indemnities under the terms of deeds of indemnity with current and former Directors and current officers of the Company and its subsidiaries. Each deed provides that the relevant Director or officer is to the maximum extent permitted by law, indemnified out of the property of the Company or the subsidiary, as applicable, against any liability (other than a liability for costs and expenses) the Director or officer incurs to another person (other than the Company or a related body corporate of the Company) as a Director or officer of Company or a related body corporate, unless the liability arises out of conduct involving a lack of good faith by the Director or officer.

No indemnity has been granted to an auditor of the Group in their capacity as auditors of the Group.

OPTIONS

At the date of this report, the unissued ordinary shares of Base Resources Limited under option are as follows:

| Grant date | Date of expiry | Exercise price | Number under option |
|------------------|------------------|----------------|---------------------|
| 23 December 2014 | 31 December 2018 | \$0.40 | 30,712,531 |
| 19 June 2015 | 31 December 2018 | \$0.40 | 30,712,530 |
| | | | 61,425,061 |

In accordance with the terms of the Taurus Facility, 61,425,061 options were issued to Taurus Funds Management, with half issued on execution and half on facility drawdown in June 2015. Refer to note 13 for further details. Option holders do not have any rights to participate in any issues of shares or other interests in the Group or any other entity.

SHARES ISSUED SINCE THE END OF THE FINANCIAL YEAR

No shares in Base Resources Limited have been issued since year end and no amounts are unpaid on any of the issued shares.

PROCEEDINGS ON BEHALF OF GROUP

No person has applied for leave of a Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to external auditors for non-audit services provided during the year ended 30 June 2017:

| | 2017 \$ | 2016 \$ |
|----------------------------|------------|------------|
| <i>KPMG Australia</i> | | |
| Taxation services | 98,656 | 32,820 |
| Other services | 11,000 | 10,000 |
| <i>Overseas KPMG firms</i> | | |
| Taxation services | 108,894 | 234,423 |

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 63 of the Annual 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 financial report and directors' report have been rounded to the nearest thousand dollars, unless otherwise stated.

Remuneration report - audited

This remuneration report sets out the remuneration arrangements for Base Resources Limited for year ended 30 June 2017. This remuneration report forms part of the Directors' Report and has been audited in accordance with the *Corporations Act 2001*.

DETAILS OF KEY MANAGEMENT PERSONNEL

The remuneration report details the remuneration arrangements for key management personnel ('KMP') who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, and comprise the Directors (whether executive or otherwise) of the Group and other executive management as detailed in the table below. The Executive Directors and executive management listed in the table below are collectively defined as the Senior Executives for the purposes of this report.

| Name | Position |
|--------------------------------|---|
| <i>Senior Executives</i> | |
| T Carstens | Managing Director |
| C Bwye | Executive Director - Operations & Development |
| K Balloch | Chief Financial Officer |
| C Forbes | General Manager - Environment & Community Affairs |
| A Greyling | General Manager - Project Development |
| S Hay | General Manager - Marketing |
| J Schwarz | General Manager - External Affairs & Development |
| D Vickers | General Manager - Operations |
| <hr/> | |
| <i>Non-Executive Directors</i> | |
| K Spence | Chairman |
| S Willis | Director |
| M Anderson | Director |
| M Macpherson | Director |
| M Stirzaker | Director |

CHANGES SINCE THE END OF THE REPORTING DATE

None.

ROLE OF THE REMUNERATION & NOMINATION COMMITTEE

The Remuneration & Nomination Committee is responsible for oversight of the remuneration system and policies. It is also responsible for evaluating the performance of the Executive Directors and monitoring performance of the executive management team. The Board, upon recommendation of the Remuneration & Nomination Committee, determines the remuneration of the Executive Directors and approves the remuneration of the executive management team.

The objective of the Remuneration & Nomination Committee is to ensure that the remuneration system and policies attract and retain executives and directors who will create value for shareholders.

SERVICES FROM REMUNERATION CONSULTANTS

The Remuneration & Nomination Committee engaged Godfrey Remuneration Group ('**Godfrey**') to provide market

data to assist the Company in assessing the competitiveness of the Group's remuneration practices for Senior Executives. The Committee also engaged BDO to (i) review the appropriateness of the Group's current incentive arrangements and to make broad recommendations for the Committee's consideration; and (ii) provide market data relating to the remuneration packages of the Group's Senior Executives to assist the Committee in assessing the competitiveness of current remuneration packages.

Godfrey and BDO were engaged by the Remuneration & Nomination Committee Chairman, and reported directly to the Committee and the Board. Further, each consultant has processes and procedures in place to minimise potential opportunities for undue influence of Senior Executives. The Board is satisfied that the interaction between consultants and Senior Executives is minimal, principally relating to provision of relevant Group information for consideration by the respective consultants. The Board is therefore satisfied that the advice received from Godfrey and BDO is free from undue influence from the Senior Executives to whom the remuneration recommendations apply.

The information provided by both Godfrey and BDO was provided to the Remuneration & Nomination Committee as inputs into decision making only. The Committee and the Board considered the information, along with other factors, in making its ultimate remuneration decisions.

Total fees paid to Godfrey for services during the year ended 30 June 2017 were \$3,200.

Total fees paid to BDO for services during the year ended 30 June 2017 were \$20,500.

REMUNERATION POLICY

Base Resources is committed to the close alignment of remuneration to shareholder return, particularly that of the Senior Executives. To this end, the Group's remuneration system is designed to attract, motivate and retain people by identifying and rewarding high performers and recognising their contribution to the continued growth and success of the Group.

Key objectives of the Group's remuneration policy are to ensure that remuneration practices:

- Facilitate the achievement of the Group's objectives;
- Provide strong linkage between executive incentive rewards and creation of value for shareholders;

- Are simple to understand and implement, openly communicated and are equitable across the Group;
- Attract, retain and motivate employees of the required capabilities; and
- Comply with applicable legal requirements and appropriate standards of governance.

KEY PRINCIPLES OF SENIOR EXECUTIVE REMUNERATION

Remuneration comprises fixed remuneration, and variable (or 'at-risk') remuneration, which is determined by individual and Group performance. The Group targets total fixed remuneration ('**TFR**') at the 50th market percentile and total remuneration package ('**TRP**'), including at-target variable remuneration, at the 75th market percentile, for Senior Executives. As a consequence, the Group's Senior Executives have a higher proportion of remuneration at-risk than industry averages.

Remuneration report - audited

Questions and answers about Senior Executive remuneration:

Remuneration mix

What is the balance between fixed and at-risk remuneration?

The mix of fixed and at-risk remuneration varies depending on the organisational level of executives, and also depends on the performance of the Group and individual executives. More senior positions have a greater proportion of their remuneration at-risk.

If overall Group performance fails to meet a minimum standard, no executives will be entitled to receive any at-risk remuneration. For all executives, it is therefore possible that no at-risk remuneration will be earned and that fixed remuneration will represent 100 per cent of total remuneration.

If target at-risk remuneration is earned, the proportion of total remuneration represented by fixed and at-risk remuneration would be:

- Executive Directors (includes Managing Director): 36% fixed and 64% at-risk.
- Other Senior Executives: 53% fixed and 47% at-risk.

Fixed remuneration

What is included in fixed remuneration?

TFR includes a base salary, inclusive of superannuation. Allowances and other benefits may be provided and are as agreed, including leased motor vehicles and additional superannuation, provided that no extra cost is incurred by the Group.

To attract and retain people of the requisite capability to key roles located in Kenya, an additional market allowance may be paid. The market allowance, while fixed in nature, does not form part of TFR for the purposes of calculating at-risk remuneration entitlements.

When and how is fixed remuneration reviewed?

TFR is reviewed annually. Any adjustments to the TFR for the Executive Directors must be approved by the Board after recommendation by the Remuneration & Nomination Committee. The Executive Directors determine the TFR of other Senior Executives within specified guidelines approved by the Board, subject to final approval by the Remuneration Committee. The Group seeks to position fixed remuneration at the 50th market percentile of salaries for comparable companies within the mining industry with which the Group competes for talent and equity investment, utilising datasets and specific advice provided by independent remuneration consultants.

Short Term Incentive Plan ("STIP")

What is the STIP?

The STIP is the cash component of at-risk remuneration, payable based on a mix of Group and individual annual performance standards.

Why does the Board consider the STIP is appropriate?

At-risk remuneration strengthens the link between pay and performance. The purpose of these programs is to reward executives for annual performance relative to expectations of their role accountabilities, required behaviours and KPI's as well as delivery of annual business plans. A reward structure that provides at-risk remuneration is also necessary as a competitive remuneration package in the Australian and global marketplace for executives.

Does the STIP take into account different levels of performance compared to objectives?

The size of any STIP payment is linked to the extent of achievement. Levels of performance required for target levels of STIP are set such that they are challenging but achievable.

Required performance levels for each performance criteria are set at three levels being:

Threshold - A performance level that is below optimal but nevertheless acceptable. It is the minimum for which a small STIP award would be payable. The STIP is designed such that there is an 80% probability the executive will achieve or exceed this level of achievement.

Target - A performance level that represents a challenging but achievable level of performance. The STIP is designed such that there is a 50% to 60% probability the executive will achieve or exceed this level of achievement.

Stretch - A performance level that is clearly at the upper limit of what may be achievable. The STIP is designed such that there is a 10% to 20% probability the executive will achieve or exceed this level of achievement.

The probabilities of achievement are set at these levels such that, over time, awards approximately equal to the target level would become payable, assuming performance to role. The achievement of this target level of award would support the 75th market percentile TRP policy objective for executives.

What are the performance criteria?

Performance criteria are assigned for both individual and Group performance. Performance criteria may change from year to year.

For Executive Directors, 75% of the STIP is attached to individual performance criteria and 25% to corporate performance criteria. For other Senior Executives, 50% of the STIP is attached to individual performance criteria and 50% to corporate performance criteria.

Reflecting the importance attached to role clarity within Base Resources, individual performance criteria are drawn directly from the role accountabilities in the participant's role description. Each performance criteria is allocated a weighting that reflects the relative importance of that performance criteria for the year.

Corporate performance criteria are set at the commencement of each financial year and are usually derived from the annual operating plan and may vary from time to time to include other aspects of performance for which there is shared accountability and which the Group wishes to emphasise.

The target corporate performance (50% STIP component) criteria for Senior Executives for the 2017 financial year was:

- 5% above budgeted group EBITDA, assuming fixed AUD:USD exchange rate and the inclusion of only 25% of variances in actual sales prices against budgeted prices, reflecting a limited measure of management control over product pricing outcomes.

Where budgeted group EBITDA is used as the basis for the target corporate performance, the Remuneration & Nomination Committee will set the performance criteria for the year (i.e. the 'Threshold', 'Target' and 'Stretch' performance ranges) on the basis of an assessment of the degree of challenge represented by the particular year's budget. Consequently, these ranges may change from year to year. This approach is designed to ensure the appropriate degree of challenge in both budgets committed to and STIP.

Remuneration report

- audited

Is there an overriding financial performance or other conditions?

For each year, a gate or gates may be determined by the Board. The gate may be a minimum level of earnings for the Group or a safety performance threshold that must be achieved for any awards to become payable under the STIP.

Irrespective of whether a gate is achieved, the Board retains discretion to increase or decrease awards in its absolute discretion. It is intended that the exercise of this discretion is used sparingly to take account of significant events and/or factors that were not anticipated when the year commenced and the performance criteria were set.

The following gates were in place for the 2017 financial year:

- No workplace fatalities.
- No major reputational or environmental events.

What is the value of the STIP award opportunity?

Executive Directors have a target STIP opportunity of 60% of TFR, with a minimum opportunity (if only threshold level is met) of 20% and a maximum opportunity (if the stretch targets are achieved) of 100% of TFR.

Other Senior Executives have a target STIP opportunity of 30% of TFR, with a minimum opportunity (if only threshold level is met) of 15% and a maximum opportunity (if the stretch targets are achieved) of 60% of TFR.

These percentages are set based on external advice to achieve the remuneration policy intent of 75th market percentile TRP market positioning.

How is the STIP assessed?

Individual performance criteria - are assessed using a performance rating scale. In making the assessment in respect of a particular area of accountability, consideration is given to the extent to which the behaviours and performance indicators identified in the role description have been modelled and observed. This assessment is undertaken by the participant's manager and then signed-off by the manager-once-removed. In the case of the Executive Directors, the assessment is undertaken by the Remuneration & Nomination Committee and approved by the Board. Specific outcomes during the 2017 financial year relevant to STIP awards have included:

- Continued outperformance of Kwale Operations which has seen design (and beyond) throughputs, availabilities and recoveries consistently achieved;
- Tight control of operating costs, achieving a challenging budget;
- Another year without a Lost Time Injury (the last was in February 2014) and further improvement in the Total Recordable Injury Frequency Rate;
- Successful introduction of a new mining method in hydraulic mining which will be adopted as the exclusive mining method through implementation of the Kwale Phase 2 project;
- Securing of market share and sales for all production, with only working inventory held throughout the year;
- Completion of the Kwale South Dune Deposit resource extension drilling campaign with community support;
- A significant reset of the relationship with the Kenyan National Government following the change in Cabinet Secretary;
- Progressive improvement in Kenyan media coverage of Base Resources and the industry, with improving public sentiment and understanding;
- Maintenance of funding continuity as well as options for strategic plan execution, including extension of the Taurus Facility and progression of further options with the current Kwale Facility lender group; and
- Delivery of a robust and comprehensive Kwale Phase 2 definitive feasibility study, now approved for implementation.

Corporate performance criteria - the Board determines the extent to which each corporate performance criteria has been achieved.

Long Term Incentive Plan ('LTIP')

| | |
|--|---|
| What is the LTIP? | <p>The LTIP is the equity component of at-risk remuneration and is linked to the Group's Total Shareholder Return ('TSR') performance over a 3 year period.</p> <p>The LTIP aims to reward participants for Base Resources' TSR performance, both relative to its peer group and in absolute terms.</p> |
| How often are LTIP awards made? | <p>The LTIP operates on the basis of a series of cycles. Each cycle commences on 1 October and is followed by a 3 year performance period, with a test date on the 3rd anniversary of commencement of the cycle. The first cycle of the LTIP began on 1 October 2011.</p> |
| Why does the Board consider a LTIP is appropriate? | <p>The Group believes that a well designed LTIP can:</p> <ul style="list-style-type: none"> • Attract executives with the required capability; • Retain key talent; • Maintain a stable leadership team; and • Explicitly align and link the interests of the Base Resources leadership team and shareholders. |
| What types of equity may be granted under the LTIP? | <p>Performance rights are granted under the Base Resources LTIP. Performance rights are a right granted to acquire one share in Base Resources, subject to satisfying the specified performance criteria (outlined below).</p> <p>A participant is not entitled to participate in or receive any dividends or other shareholder benefits until the performance right has vested and a share has been allocated and transferred to the participant.</p> |
| What is the value of the LTIP award opportunity? | <p>Executive Directors are awarded performance rights worth 120% of TFR. Other Senior Executives are awarded performance rights worth 60% of TFR. The LTIP performance criteria are designed to target 50% vesting of awarded performance rights over time.</p> <p>These award opportunities and target vesting outcome are set based on external advice to achieve the remuneration policy intent of 75% market percentile TRP market positioning.</p> |

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What are the LTIP performance criteria?

The Group uses two LTIP performance criteria to determine the proportion of performance rights which vest, as follows:

- Half of the performance rights are subject to a relative TSR criteria (the relative TSR performance rights); and
- Half of the performance rights are subject to an absolute TSR criteria (the absolute TSR performance rights).

The Board considers that TSR is an appropriate performance hurdle because it ensures that a proportion of each participant's remuneration is explicitly linked to shareholder value and ensures that participants only receive a benefit where there is a corresponding direct benefit to shareholders.

Relative TSR performance rights

The proportion of relative TSR performance rights which vest will be determined on the basis of Base Resources' TSR relative to the TSR of the comparator group over the performance period, as set out below:

| Base Resources relative 3-year TSR performance ⁽¹⁾ | Percentage of relative TSR performance rights that vest |
|---|---|
| Less than 40th percentile | Nil |
| 40th percentile | 25% |
| Between 40th and 50th percentile | Pro rata between 25% and 50% |
| Between 50th and 75th percentile | Pro rata between 50% and 100% |
| 75th percentile and above | 100% |

Notwithstanding the above, the Board has the absolute discretion to determine that no relative TSR performance rights vest if Base Resources' TSR is negative (despite its relative placing within the TSR comparator group).

LTIP performance criteria are designed to target 50% vesting over time to achieve policy intent for remuneration market positioning, whilst providing incentive for outperformance. A threshold level of performance, being suboptimal but nevertheless acceptable, which results in 25% vesting at a relative TSR performance at the 40th percentile of the peer group is part of this design and considered appropriate in the context of the LTIP as a whole.

Absolute TSR performance rights

The proportion of absolute TSR performance rights which vest will be determined on the basis of Base Resources' TSR on the following scale:

| Base Resources 3-year TSR ⁽¹⁾ | Percentage of absolute TSR performance rights that vest |
|--|---|
| Less than 40.5% | Nil |
| 40.5% | 25% |
| Between 40.5% and 56% | Pro rata between 25% and 50% |
| Between 56% and 73% | Pro rata between 50% and 100% |
| 73% or greater | 100% |

The number of performance rights granted for the cycle commencing 1 October 2016 is by reference to the 20-day volume weighted average price ('VWAP') of \$0.1529 per share, subject to a scaleback to ensure compliance with applicable ASIC relief (\$0.0575 for cycle commencing 1 October 2015 and \$0.2905 for cycle commencing 1 October 2014). In order to achieve 100% vesting a 30-day VWAP of \$0.2645 or greater would be required for the cycle commencing 1 October 2016 (\$0.1150 for cycle commencing 1 October 2015 and \$0.5810 for cycle commencing 1 October 2014) at the conclusion of the 3-year performance period.

¹The performance scale was revised for the cycle commencing 1 October 2016. For previous cycles refer to prior annual reports.

What is the comparator group?

The TSR comparator group is comprised of the 26th to 75th ranked companies, from the top 150 ASX listed resource companies (excluding oil and gas) by market capitalisation, at the time of the offer. The comparator group for each of the performance rights cycles is comprised of the following companies:

| Companies | LTIP Cycle Commencing 1 October | | |
|---------------------------------------|---------------------------------|------|------|
| | 2016 | 2015 | 2014 |
| ABM Resources NL | | ✓ | |
| Alkane Resources Limited | ✓ | ✓ | |
| Altona Mining Limited | | | ✓ |
| Altura Mining Limited | ✓ | | |
| Aquarius Platinum Limited | | ✓ | |
| Arrium Limited | | ✓ | |
| Atlas Iron Limited | | ✓ | ✓ |
| Atrum Coal NL | ✓ | ✓ | ✓ |
| Aurelia Metals Limited | | | ✓ |
| Austral Gold Limited | | ✓ | |
| Avanco Resources Limited | ✓ | ✓ | ✓ |
| Axiom Mining Limited | | ✓ | |
| BC Iron Limited | | | ✓ |
| Beadell Resources Limited | ✓ | ✓ | ✓ |
| Berkeley Energia Limited | ✓ | | |
| Blackham Resources Limited | ✓ | | |
| Bougainville Copper Limited | | ✓ | ✓ |
| Brockman Mining Limited | ✓ | | |
| Cardinal Resources Limited | ✓ | | |
| CI Resources Limited | ✓ | ✓ | |
| CuDeco Limited | ✓ | ✓ | ✓ |
| Dacian Gold Limited | ✓ | | |
| Dome Gold Mines Limited | | ✓ | |
| Doray Minerals Limited | ✓ | ✓ | |
| Eastern Goldfields Limited | ✓ | | |
| Elemental Minerals Limited | | ✓ | |
| Endeavour Mining Corporation | | ✓ | ✓ |
| Energy Resources of Australia Limited | ✓ | | |
| Finders Resources Limited | ✓ | ✓ | ✓ |
| Focus Minerals Limited | | | ✓ |
| Galaxy Resources Limited | ✓ | | |
| Gascoyne Resources Limited | ✓ | | |
| Gold Road Resources Limited | ✓ | ✓ | ✓ |
| Grange Resources Limited | ✓ | ✓ | ✓ |
| Havilah Resources Limited | ✓ | | |
| Highfield Resources Limited | ✓ | | ✓ |
| Highlands Pacific Limited | | ✓ | |
| Indophil Resources NL | | | ✓ |
| Intrepid Mines Limited | | | ✓ |
| Iron Road Limited | | | ✓ |
| Kazakhstan Potash Corp Ltd | | | ✓ |
| Kidman Resources Limited | ✓ | | |
| Kingsgate Consolidated Ltd | | ✓ | ✓ |
| Kingsrose Mining Limited | | ✓ | ✓ |
| Luca Diamond Company Limited | ✓ | ✓ | |
| Lynas Corporation Limited | ✓ | ✓ | ✓ |
| Magnis Resources Limited | ✓ | | |
| Metals X Limited | ✓ | | ✓ |
| Millennium Minerals Limited | ✓ | | |
| Mincor Resources NL | | | ✓ |
| Mineral Deposits Limited | | | ✓ |
| Mirabela Nickel Limited | | ✓ | |
| Mount Gibson Iron Limited | ✓ | ✓ | |
| Neometals Limited | ✓ | | |
| Newfield Resources Limited | | ✓ | ✓ |
| Nkwe Platinum Limited | | ✓ | |
| Northern Minerals Limited | | ✓ | ✓ |
| Norton Gold Fields Limited | | | ✓ |
| OM Holdings Limited | | ✓ | ✓ |
| Orocobre Limited | ✓ | ✓ | ✓ |
| Paladin Energy Limited | ✓ | | |
| Panoramic Resources Limited | | ✓ | ✓ |
| Pantoro Limited | ✓ | | |
| Perseus Mining Limited | ✓ | ✓ | ✓ |
| Pilbara Minerals Limited | ✓ | ✓ | |
| Poseidon Nickel Limited | | | ✓ |
| Ramelius Resources Limited | ✓ | ✓ | |
| Rand Mining Limited | ✓ | ✓ | |
| Range International Limited | ✓ | | |
| Resolute Mining Limited | | ✓ | ✓ |
| Reward Minerals Limited | | ✓ | |
| RTG Mining Inc | | | ✓ |
| Sandfire Resources NL | ✓ | | |
| Saracen Mineral Holdings Ltd | | | ✓ |
| Sheffield Resources Limited | | | ✓ |
| Silver Lake Resources Ltd | ✓ | ✓ | ✓ |
| Stanmore Coal Limited | ✓ | | |
| Stonewall Resources Limited | | | ✓ |
| Sundance Resources Limited | | | ✓ |
| Tanami Gold NL | | ✓ | |
| Teranga Gold Corporation | ✓ | ✓ | ✓ |
| Terramin Australia Limited | ✓ | ✓ | ✓ |
| Tiger Resources Limited | | | ✓ |
| Tigers Realm Coal Limited | | | ✓ |
| TNG Limited | | ✓ | |
| Tribune Resources Limited | ✓ | ✓ | ✓ |
| Triton Minerals Limited | | ✓ | ✓ |
| Troy Resources Limited | ✓ | ✓ | ✓ |
| Valence Industries Limited | | | ✓ |
| West African Resources Limited | ✓ | | |
| Western Areas Limited | ✓ | | |
| Wolf Minerals Limited | | ✓ | ✓ |
| Wollongong Coal Limited | | ✓ | |
| Yancoal Australia Limited | ✓ | | |
| Zimplats Holdings Limited | ✓ | | |

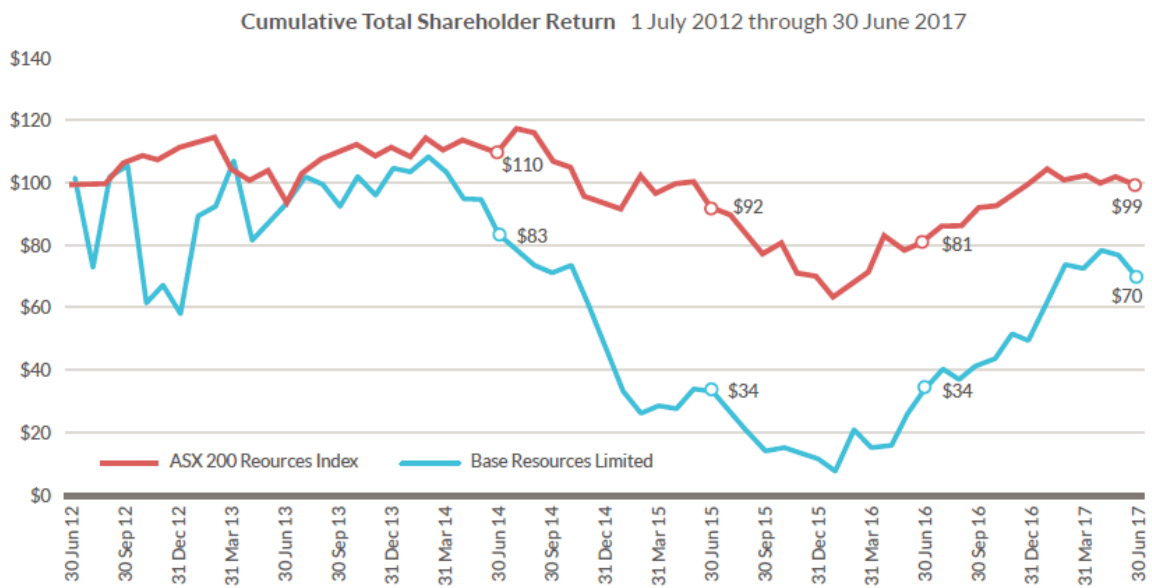
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| | |
|--|---|
| Was a grant made in 2017? | <p>Performance rights were granted to eligible participants in the LTIP for the cycle commencing 1 October 2016. The number of performance rights granted for each executive was calculated by reference to the VWAP on the twenty trading days up to the start of the cycle, being \$0.1529 per share, and the LTIP award opportunity.</p> <p>The number of rights granted to eligible participants for this cycle was subject to a 50% scale back to ensure compliance with applicable ASIC relief limiting the number of rights that may be on issue under the LTIP on a three year rolling basis. A compensating payment was made to eligible participants for rights foregone of \$0.8 million.</p> |
| What happens to performance rights granted under the LTIP when a participant ceases employment? | <p>Where a participant ceases to be employed by a Group member (and is not immediately employed by another Group member) for any reason other than a qualifying reason, all unvested performance rights of that participant are automatically forfeited.</p> <p>Where a participant ceases to be employed by a Group member because of a qualifying reason, then the Board must determine, in its absolute discretion, the number of unvested performance rights of a participant (if any) that will remain on foot and become capable of vesting in accordance with LTIP rules.</p> <p>The Board will generally exercise its discretion in the following manner:</p> <ul style="list-style-type: none">• Performance rights granted in the cycle beginning on the 1 October immediately prior to the participant ceasing to be employed by a Group member are automatically forfeited; and• All other performance rights will continue to be held by the participant and will be tested for vesting on the test date for the relevant performance right. <p>Qualifying reasons include but are not limited to death, total and permanent disablement, retirement or redundancy.</p> |
| What happens in the event of a change of control? | <p>Subject to the Board determining otherwise, if a change of control event occurs then a test date arises on the date that the change of control event occurs with the Board to test the extent to which the performance criteria have been satisfied:</p> <ul style="list-style-type: none">• On the basis of the offer price of the relevant transaction; and• In the case of absolute TSR performance rights, reducing the percentage TSR performance hurdle pro rata to the unexpired portion of the performance period as at the date the change in control event occurs. |
| Do shares granted upon vesting of performance rights dilute existing shareholders' equity? | <p>Shares allocated to the participants in the LTIP upon vesting of performance rights may be satisfied by the Group issuing shares to the plan trustee or purchases by the plan trustee on market. In the event the Group issues shares to the plan trustee to satisfy the vesting of performance rights then shareholders' pre-existing equity will be diluted.</p> |
| Does the Group have a policy in relation to hedging at-risk remuneration? | <p>A participant in the LTIP must not enter into an arrangement if the arrangement would have the effect of limiting the exposure of the participant to risk relating to performance rights that have not vested.</p> |
| Did any performance rights vest in 2017? | <p>None of the 7,518,865 performance rights granted under the LTIP for the cycle commencing 1 October 2013 vested. These rights completed the three-year performance period on 30 September 2016, with nil vesting as follows:</p> <ul style="list-style-type: none">• Relative TSR performance rights <p>Base Resources TSR over the performance period placed it in the 49th percentile, resulting in none of the 3,759,432 relative performance rights vesting.</p> <ul style="list-style-type: none">• Absolute TSR performance rights <p>Base Resources TSR over the performance period, by reference to a final VWAP of \$0.15, equated to a TSR of -60%, resulting in none of the 3,759,433 absolute performance rights vesting.</p> <p>No shares were issued to LTIP participants in 2017.</p> |

GROUP PERFORMANCE AND ITS LINK TO SHAREHOLDER RETURN

The following graph compares the yearly change in the cumulative TSR of Base Resources' shares during the period 1 July 2012 to 30 June 2017, against the cumulative total return of the ASX 200 Resources Index over the same period. The graph illustrates the cumulative return from Base Resources over the past five years, assuming \$100 was invested. No dividends have been declared during this period.



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EXECUTIVE REMUNERATION OUTCOMES FOR 2017

Short Term Incentives

At the end of the 2017 financial year, a review of the performance of each Senior Executive was undertaken against each of their 2017 individual performance measures as explained above. The 2017 financial year corporate performance achieved was between target and stretch performance levels, and incentives are payable in relation to this component commensurate with the performance level achieved. STIP entitlements earned for 2017 performance are paid in the 2018 financial year.

The following table outlines the STI that was earned in comparison with the target STI for the 2017 financial year:

| Name | Target STI | | STI Awarded | |
|------------|------------------------|-----------------------|------------------------|-----------------------|
| | Individual performance | Corporate performance | Individual performance | Corporate performance |
| T Carstens | 45% | 15% | 65% | 20% |
| C Bwee | 45% | 15% | 62% | 20% |
| K Balloch | 15% | 15% | 21% | 22% |
| C Forbes | 15% | 15% | 21% | 22% |
| A Greyling | 15% | 15% | 20% | 22% |
| S Hay | 15% | 15% | 23% | 22% |
| J Schwarz | 15% | 15% | 19% | 22% |
| D Vickers | 15% | 15% | 20% | 22% |

LTIP Performance Rights

The LTIP, introduced in 2012, operates on the basis of a series of 3-year performance cycles commencing on 1 October each year. Accordingly, LTIP performance rights issued in the year ending 30 June 2017 are subject to a 3-year performance period ending on 30 September 2019. Performance rights issued under the plan in the 2014 financial year, totalling 7,518,865, completed their 3-year performance period on 30 September 2016, with no performance rights vesting.

The table below outlines the historical performance of performance rights cycles under the LTIP programme:

| Grant date | Vesting date | Number of performance rights granted | Relative Performance Rights | | Absolute Performance Rights | |
|----------------|-------------------|--------------------------------------|-----------------------------|----------|-----------------------------|----------|
| | | | Number vested | % vested | Number vested | % vested |
| 30 June 2012 | 30 September 2014 | 4,125,484 | 2,062,742 | 100% | - | 0% |
| 1 October 2012 | 30 September 2015 | 4,870,331 | - | 0% | - | 0% |
| 1 October 2013 | 30 September 2016 | 7,518,865 | - | 0% | - | 0% |

TAKE HOME PAY FOR 2017

The remuneration detailed in this table represents the Senior Executives 'take home pay' and is aligned to the current reporting period, and therefore is particularly useful in understanding actual remuneration received during the year. The table excludes adjustments made for accounting purposes and included in Statutory Remuneration (refer page 48), specifically the probability and value of an employee obtaining long service leave and the fair value of performance rights under three outstanding LTIP cycles expensed during the 2017 financial year. The remuneration packages for all Senior Executives are shown in the following table in their employment currency and remain unchanged from 2016, excluding changes in STIP awards and compensating payment for LTIP scale back.

| Key Management Person | Currency | Salary | STIP award | Superannuation | Vesting of performance rights | Compensating payment for LTIP scaleback ⁽ⁱ⁾ | Take home pay ⁽ⁱⁱ⁾ (before tax) |
|---------------------------------------|----------|---------|------------|----------------|-------------------------------|--|--|
| 2017 | | | | | | | |
| Executive Directors | | | | | | | |
| T Carstens | AUD | 406,800 | 367,299 | 30,000 | - | 130,160 | 934,259 |
| C Bwye | AUD | 401,800 | 354,195 | 35,000 | - | 130,160 | 921,155 |
| Other Key Management Personnel | | | | | | | |
| K Balloch | AUD | 320,000 | 150,091 | 30,000 | - | 52,148 | 552,239 |
| C Forbes | GBP | 235,320 | 100,912 | - | - | 35,061 | 371,293 |
| A Greyling | AUD | 280,000 | 132,720 | 35,000 | - | 46,933 | 494,653 |
| S Hay | AUD | 360,000 | 173,094 | 30,000 | - | 58,107 | 621,201 |
| J Schwarz | USD | 327,600 | 133,114 | - | - | 48,810 | 509,524 |
| D Vickers | USD | 430,816 | 143,400 | - | - | 50,710 | 624,926 |
| 2016 | | | | | | | |
| Executive Directors | | | | | | | |
| T Carstens | AUD | 406,800 | 326,618 | 30,000 | - | - | 763,418 |
| C Bwye | AUD | 401,800 | 317,882 | 35,000 | - | - | 754,682 |
| Other Key Management Personnel | | | | | | | |
| K Balloch | AUD | 320,000 | 146,410 | 30,000 | - | - | 496,410 |
| C Forbes | GBP | 235,320 | 82,554 | - | - | - | 317,874 |
| A Greyling ⁽ⁱⁱⁱ⁾ | AUD | 256,667 | 106,651 | 32,082 | - | - | 395,400 |
| S Hay | AUD | 360,000 | 151,442 | 30,000 | - | - | 541,442 |
| J Schwarz | USD | 327,600 | 122,297 | - | - | - | 449,897 |
| D Vickers | USD | 430,816 | 132,163 | - | - | - | 562,979 |

(i) Base Resources Limited financial results are reported under International Financial Reporting Standards (IFRS). The above table includes certain non-IFRS measures including vested performance rights and take home pay. These measures are presented to enable understanding of the underlying remuneration of KMPs.

(ii) A scale back was applied to performance rights offered under the LTIP cycle commencing 1 October 2016 in order to ensure compliance with applicable ASIC relief. A compensating payment was made during the 2017 financial year to eligible staff in lieu of the scale back in performance rights offered.

(iii) Appointed 1 August 2015.

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STATUTORY REMUNERATION DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2017

The statutory remuneration disclosures for the year ended 30 June 2017 are detailed below and are prepared in accordance with Australian Accounting Standards and differ from the take home pay summary on page 47. These differences arise due to the accounting treatment of long service leave and share-based payments. The remuneration packages for all Senior Executives remain unchanged from 2016, in their base currency. Any changes in remuneration in the following table, excluding STIP awards and compensating payment for LTI scale back, are the result of foreign exchange movements only, as detailed below.

| Key Management Person | Short term employment benefits | | Post-employment benefits | Other long term | Cash paid in lieu | Share based payments | Total | Performance related |
|---------------------------------------|--------------------------------|---------------------------|--------------------------|------------------------------------|--|-------------------------------------|------------------|---------------------|
| | Salary | STIP bonus ⁽ⁱ⁾ | Superannuation | Long service leave ⁽ⁱⁱ⁾ | Compensating payment for LTI scaleback | Performance Rights ⁽ⁱⁱⁱ⁾ | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| 2017 | | | | | | | | |
| Executive Directors | | | | | | | | |
| T Carstens | 406,800 | 367,299 | 30,000 | 7,683 | 130,160 | 292,776 | 1,234,718 | 64.0 |
| C Bwey | 401,800 | 354,195 | 35,000 | 14,026 | 130,160 | 292,776 | 1,227,957 | 63.3 |
| Other Key Management Personnel | | | | | | | | |
| K Balloch | 320,000 | 150,091 | 30,000 | 10,531 | 52,148 | 116,595 | 679,365 | 46.9 |
| C Forbes ^(iv) | 395,562 | 170,713 | - | - | 58,936 | 150,987 | 776,198 | 49.0 |
| A Greyling | 280,000 | 132,720 | 35,000 | 679 | 46,933 | 67,349 | 562,681 | 43.9 |
| S Hay | 360,000 | 173,094 | 30,000 | 7,563 | 58,107 | 130,704 | 759,468 | 47.7 |
| J Schwarz ^(v) | 434,483 | 173,181 | - | - | 64,735 | 138,838 | 811,237 | 46.4 |
| D Vickers ^(v) | 571,374 | 186,563 | - | - | 67,255 | 144,241 | 969,433 | 41.1 |
| Total | 3,170,019 | 1,707,856 | 160,000 | 40,482 | 608,434 | 1,334,266 | 7,021,057 | - |
| 2016 | | | | | | | | |
| Executive Directors | | | | | | | | |
| T Carstens | 406,800 | 326,618 | 30,000 | (19,735) | - | 271,181 | 1,014,864 | 58.9 |
| C Bwey | 401,800 | 317,882 | 35,000 | 6,698 | - | 271,181 | 1,032,561 | 57.0 |
| Other Key Management Personnel | | | | | | | | |
| K Balloch | 320,000 | 146,410 | 30,000 | 4,178 | - | 105,987 | 606,575 | 41.6 |
| C Forbes ^(iv) | 479,853 | 149,093 | - | - | - | 136,353 | 765,299 | 37.3 |
| A Greyling ^(vi) | 256,667 | 106,651 | 32,082 | 216 | - | 30,298 | 425,914 | 32.2 |
| S Hay | 360,000 | 151,442 | 30,000 | 2,138 | - | 119,800 | 663,380 | 40.9 |
| J Schwarz ^(v) | 449,815 | 164,869 | - | - | - | 119,265 | 733,949 | 38.7 |
| D Vickers ^(v) | 591,536 | 178,169 | - | - | - | 123,835 | 893,540 | 33.8 |
| Total | 3,266,471 | 1,541,134 | 157,082 | (6,505) | - | 1,177,900 | 6,136,082 | - |

(i) Current year STIP awards are accrued in the financial year to which the performance relates.

(ii) Long service leave entitlement represents the movement in the provision. Due to a change in calculation methodology a reduction in the provision occurred during the 2016 financial year, impacting some employees.

(iii) The fair value of performance rights is calculated at the date of grant using a Monte Carlo Simulation model and recognised over the period in which the minimum service conditions are fulfilled (the vesting period). The value disclosed is the portion of the fair value of the performance rights recognised in the reporting period. The amount included as remuneration is not necessarily the benefit (if any) that individual Senior Executive may ultimately receive.

(iv) Total remuneration package denominated in Pounds sterling (GBP) and converted to Australian dollars (A\$) for reporting purposes using the average exchange rate for the 2017 financial year of 0.5949 (2016: 0.4904).

(v) Total remuneration package denominated in US dollars (US\$) and converted to Australian dollars (A\$) for reporting purposes using the average exchange rate for the 2017 financial year of 0.7540 (2016: 0.7283).

(vi) Appointed 1 August 2015.

RECONCILIATION OF TAKE HOME PAY TO STATUTORY REMUNERATION

A reconciliation of the Managing Director's take home pay to statutory remuneration is detailed below as an example:

| | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| Take home pay for the Managing Director | 934,259 | 763,418 |
| <i>Treatment of Long Service Leave:</i> | | |
| Add: Movement in the accounting provision for long service leave entitlements | 7,683 | (19,735) |
| <i>Treatment of performance rights:</i> | | |
| Add: accounting fair value (non-cash) of performance rights recognised in the period | 292,776 | 271,181 |
| Less: valuation of performance rights vested at date of vesting | - | - |
| Statutory pay for the Managing Director | 1,234,718 | 1,014,864 |

NON-EXECUTIVE DIRECTOR REMUNERATION

Shareholders approve the maximum aggregate remuneration for non-executive directors. Fees paid to non-executive directors are recommended by the Remuneration & Nomination Committee and the Board is responsible for approving any recommendations, if appropriate. As approved at the Annual General Meeting on 28 November 2011, the aggregate limit of fees payable per annum is \$750,000 in total. Non-executive director remuneration for the 2017 financial year remained unchanged from 2016.

The Group's policy is that non-executive director remuneration is structured to exclude equity-based remuneration and reviewed annually.

All directors have their indemnity insurance paid by the Group.

Non-executive directors receive a fixed fee remuneration consisting of a cash fee and statutory superannuation contributions made by the Group and additional fees for committee roles as set out below:

| | 2017 \$ | 2016 \$ |
|--|------------|------------|
| Base fees | | |
| Chairman | 135,400 | 110,000 |
| Other non-executive directors | 70,000 | 70,000 |
| Remuneration & Nomination Committee | | |
| Chair | - | 10,500 |
| Committee member | 5,250 | 5,250 |
| Audit Committee | | |
| Chair | 14,000 | 14,000 |
| Committee member | 7,000 | 7,000 |
| Risk Committee | | |
| Chair | 7,900 | 5,925 |
| Committee member | 3,900 | 2,925 |

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NON-EXECUTIVE REMUNERATION FOR THE YEAR ENDED 30 JUNE 2017 AND COMPARATIVE 2016 REMUNERATION:

| | Base fees | Audit committee | Remuneration & Nomination committee | Risk committee | Total |
|-------------------------|----------------|-----------------|---|----------------|----------------|
| | \$ | \$ | \$ | \$ | \$ |
| 2017 | | | | | |
| K Spence ⁽ⁱ⁾ | 135,400 | - | - | - | 135,400 |
| S Willis | 70,000 | 14,000 | 5,250 | 3,900 | 93,150 |
| M Anderson | 70,000 | 7,000 | - | - | 77,000 |
| M Macpherson | 70,000 | 7,000 | 5,250 | 3,292 | 85,542 |
| M Stirzaker | 70,000 | - | 5,250 | 3,900 | 79,150 |
| Total | 415,400 | 28,000 | 15,750 | 11,092 | 470,242 |
| 2016 | | | | | |
| K Spence | 110,000 | 7,000 | 10,500 | 5,925 | 133,425 |
| S Willis | 70,000 | 14,000 | 5,250 | 2,925 | 92,175 |
| M Anderson | 70,000 | 7,000 | - | - | 77,000 |
| M Macpherson | 70,000 | 7,000 | 5,250 | - | 82,250 |
| M Stirzaker | 70,000 | - | 5,250 | 2,925 | 78,175 |
| Total | 390,000 | 35,000 | 26,250 | 11,775 | 463,025 |

(i) In 2017 Mr Spence was remunerated in his role as Chairman, which encompassed any committee roles he performed.

EQUITY INSTRUMENTS

Performance Rights

The LTIP was introduced during the 2012 financial year with effect from 1 October 2011. Under the plan, the Board may offer performance rights to eligible employees. During the 2017 financial year, performance rights were granted to Senior Executives as part of their 2017 remuneration packages.

The LTIP operates on the basis of a series of cycles. Each cycle commences on 1 October and is followed by a 3-year performance period, with a test date on the 3rd anniversary of the commencement of the Cycle. The first Cycle of the LTIP began on 1 October 2011, with the award formalised on 30 June 2012.

The table below outlines movements in performance rights during 2017 and the balance held by each Senior Executive at 30 June 2017:

| Name | Grant date ⁽ⁱ⁾ | Number of performance rights | Fair value of each performance right | Vesting date ⁽ⁱⁱ⁾ | Number vested during year | Number lapsed during year | Balance at end of year |
|------------|---------------------------|------------------------------|--------------------------------------|------------------------------|---------------------------|---------------------------|------------------------|
| T Carstens | 1 October 2013 | 1,413,914 | \$0.2300 | 30 September 2016 | - | 1,413,914 | - |
| | 1 October 2014 | 1,799,394 | \$0.1400 | 30 September 2017 | - | - | 1,799,394 |
| | 1 October 2015 | 6,964,806 | \$0.0380 | 30 September 2018 | - | - | 6,964,806 |
| | 1 October 2016 | 1,725,567 | \$0.1625 | 30 September 2019 | - | - | 1,725,567 |
| | | 11,903,681 | | | | - | 1,413,914 |
| C Bwye | 1 October 2013 | 1,413,914 | \$0.2300 | 30 September 2016 | - | 1,413,914 | - |
| | 1 October 2014 | 1,799,394 | \$0.1400 | 30 September 2017 | - | - | 1,799,394 |
| | 1 October 2015 | 6,964,806 | \$0.0380 | 30 September 2018 | - | - | 6,964,806 |
| | 1 October 2016 | 1,725,567 | \$0.1625 | 30 September 2019 | - | - | 1,725,567 |
| | | 11,903,681 | | | | - | 1,413,914 |
| K Balloch | 1 October 2013 | 538,958 | \$0.2300 | 30 September 2016 | - | 538,958 | - |
| | 1 October 2014 | 720,912 | \$0.1400 | 30 September 2017 | - | - | 720,912 |
| | 1 October 2015 | 2,790,387 | \$0.0380 | 30 September 2018 | - | - | 2,790,387 |
| | 1 October 2016 | 691,333 | \$0.1625 | 30 September 2019 | - | - | 691,333 |
| | | 4,741,590 | | | | - | 538,958 |
| C Forbes | 1 October 2013 | 660,763 | \$0.2300 | 30 September 2016 | - | 660,763 | - |
| | 1 October 2014 | 900,761 | \$0.1400 | 30 September 2017 | - | - | 900,761 |
| | 1 October 2015 | 4,072,275 | \$0.0380 | 30 September 2018 | - | - | 4,072,275 |
| | 1 October 2016 | 804,474 | \$0.1625 | 30 September 2019 | - | - | 804,474 |
| | | 6,438,273 | | | | - | 660,763 |
| A Greyling | 1 August 2015 | 108,731 | \$0.1400 | 30 September 2017 | - | - | 108,731 |
| | 1 October 2015 | 2,511,348 | \$0.0380 | 30 September 2018 | - | - | 2,511,348 |
| | 1 October 2016 | 622,200 | \$0.1625 | 30 September 2019 | - | - | 622,200 |
| | | 3,242,279 | | | | - | - |
| S Hay | 1 October 2013 | 631,212 | \$0.2300 | 30 September 2016 | - | 631,212 | - |
| | 1 October 2014 | 803,301 | \$0.1400 | 30 September 2017 | - | - | 803,301 |
| | 1 October 2015 | 3,109,289 | \$0.0380 | 30 September 2018 | - | - | 3,109,289 |
| | 1 October 2016 | 770,343 | \$0.1625 | 30 September 2019 | - | - | 770,343 |
| | | 5,314,145 | | | | - | 631,212 |
| J Schwarz | 1 October 2013 | 569,026 | \$0.2300 | 30 September 2016 | - | 569,026 | - |
| | 1 October 2014 | 772,582 | \$0.1400 | 30 September 2017 | - | - | 772,582 |
| | 1 October 2015 | 3,685,863 | \$0.0380 | 30 September 2018 | - | - | 3,685,863 |
| | 1 October 2016 | 853,160 | \$0.1625 | 30 September 2019 | - | - | 853,160 |
| | | 5,880,631 | | | | - | 569,026 |
| D Vickers | 1 October 2013 | 591,172 | \$0.2300 | 30 September 2016 | - | 591,172 | - |
| | 1 October 2014 | 802,650 | \$0.1400 | 30 September 2017 | - | - | 802,650 |
| | 1 October 2015 | 3,829,314 | \$0.0380 | 30 September 2018 | - | - | 3,829,314 |
| | 1 October 2016 | 886,365 | \$0.1625 | 30 September 2019 | - | - | 886,365 |
| | | 6,109,501 | | | | - | 591,172 |
| | 55,533,781 | | | | - | 5,818,959 | 49,714,822 |

(i) The amount expensed per the remuneration table reflects the period since commencement of services when the Group and the Senior Executive had a shared understanding of the award.

(ii) On the vesting date, performance rights are tested against the performance criteria and only those performance rights that satisfy the performance criteria vest.

Remuneration report

- audited

KEY MANAGEMENT PERSONNEL PERFORMANCE RIGHTS MOVEMENTS

| | Balance 1 July | Granted | Vested | Lapsed | Balance 30 June |
|-------------|-------------------|------------------|----------|------------------|-------------------|
| 2017 | | | | | |
| T Carstens | 10,178,114 | 1,725,567 | - | 1,413,914 | 10,489,767 |
| C Bwyne | 10,178,114 | 1,725,567 | - | 1,413,914 | 10,489,767 |
| K Balloch | 4,050,257 | 691,333 | - | 538,958 | 4,202,632 |
| C Forbes | 5,633,799 | 804,474 | - | 660,763 | 5,777,510 |
| A Greyling | 2,620,079 | 622,200 | - | - | 3,242,279 |
| S Hay | 4,543,802 | 770,343 | - | 631,212 | 4,682,933 |
| J Schwarz | 5,027,471 | 853,160 | - | 569,026 | 5,311,605 |
| D Vickers | 5,223,136 | 886,365 | - | 591,172 | 5,518,329 |
| | 47,454,772 | 8,079,009 | - | 5,818,959 | 49,714,822 |

KEY MANAGEMENT PERSONNEL SHAREHOLDINGS

The number of ordinary shares in Base Resources held by each director and KMP of the Group during the financial year is as follows:

| | Balance 1 July | Vesting of Performance Rights | Purchased | Sold | Balance 30 June |
|--------------|------------------|----------------------------------|----------------|----------|------------------|
| 2017 | | | | | |
| K Spence | - | - | 500,000 | - | 500,000 |
| T Carstens | 1,228,522 | - | - | - | 1,228,522 |
| C Bwyne | 1,842,739 | - | - | - | 1,842,739 |
| S Willis | 200,000 | - | - | - | 200,000 |
| M Anderson | - | - | - | - | - |
| M Macpherson | - | - | - | - | - |
| M Stirzaker | - | - | - | - | - |
| K Balloch | 108,948 | - | - | - | 108,948 |
| C Forbes | 130,646 | - | - | - | 130,646 |
| A Greyling | 1,411,154 | - | - | - | 1,411,154 |
| S Hay | - | - | - | - | - |
| J Schwarz | 286,085 | - | - | - | 286,085 |
| D Vickers | 190,752 | - | - | - | 190,752 |
| | 5,398,846 | - | 500,000 | - | 5,898,846 |

EXECUTIVE KEY MANAGEMENT PERSONNEL EMPLOYMENT ARRANGEMENTS

The employment arrangements of the executive KMPs are formalised in standard employment agreements. Details of the termination provisions contained in the agreements are provided below.

| Name | Term of contract | Notice period by either party | Termination benefit |
|------------|---|---|--|
| T Carstens | Permanent – ongoing until notice has been given by either party | 3 months' notice by the employee 1 month's notice for termination by Company if unable to perform duties by reason of illness No notice required for termination by Company for cause | 12 months fixed remuneration in the case of termination by the Company |
| C Bwye | Permanent – ongoing until notice has been given by either party | 3 months' notice by the employee | 6 months fixed remuneration in the case of termination by the Company |
| K Balloch | | 1 month's notice for termination by Company for serious breach of employment agreement, incompetence, gross misconduct or refusing to comply with lawful direction given by the Company | |
| C Forbes | | No notice required for termination by Company if convicted of any major criminal offence | (3 month's remuneration for C Forbes and A Greyling) |
| A Greyling | | | |
| S Hay | | | |
| J Schwarz | | Company may elect to make payment in lieu of notice | |
| D Vickers | | | |

This Report of Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Keith Spence,
Chairman

Dated: 26 August 2017

Corporate governance

The Company is committed to implementing the highest standards of corporate governance to create and deliver value for shareholders.

As an ASX listed entity, the Company must comply with the ASX Listing Rules and is required to report against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Recommendations**).

The Board considers that throughout the financial year ended 30 June 2017 the Company complied with the ASX Recommendations, except to the limited extent noted in this statement.

This statement is current as at 30 June 2017 and has been approved by the Board. Where appropriate, the statement also highlights relevant events that have occurred since 30 June 2017 with respect to the governance practices of the Company.

BOARD OF DIRECTORS

Role of the Board

The Board Charter sets out the Board's role, powers and duties and establishes the functions and responsibilities reserved for the Board and those which are delegated to EXCO (comprising the Managing Director and the Executive

Director – Operations & Development) and the executive management team. Among other things, the Board reserves responsibility for overseeing the business and affairs of the Company, including its control and accountability systems, setting the strategic direction of the Company, reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance and ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making.

The Board delegates responsibility for the day-to-day operations, management and administration of the Company to EXCO in accordance with the strategy approved by the Board. EXCO's joint responsibilities include effective leadership of the Company, preparation, and implementation of, development and operational plans, policies and procedures to achieve the strategic, operational and financial objectives of the Company, management of the day to day affairs of the Company, identifying and managing business risks and managing the Company's financial and other reporting mechanisms.

A full list of those matters reserved to the Board and those matters delegated to management is set out in the Board Charter. These delegations are further documented by way of the Delegation of Authority Standard which is reviewed and approved by the Board at least annually.

The Company Secretary is appointed by the Board and is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. The Company Secretary's role includes providing advice to the Board on corporate governance matters, with all Directors having access to the advice and services provided by the Company Secretary.

Composition of the Board

As at 30 June 2017, the Board consisted of five non-executive Directors and two executive Directors (being the Managing Director and the Executive Director – Operations & Development).

The Chairman, Mr Spence, is responsible for leadership and effective performance of the Board and for the maintenance of relations between Directors and

management that are open, cordial and conducive to productive cooperation.

A Director's independence is assessed in accordance with the Definition of Independence set out in the Board Charter. The Chairman is considered independent, along with fellow non-executive Directors Mr Willis and Mr Macpherson. Two of the Board's non-executive Directors, Mr Anderson (resigned 31 August 2017) and Mr Stirzaker are not considered independent as a consequence of their respective relationships with two of the Company's substantial shareholders. Due to the current composition of the Board, the Company does not comply with ASX Recommendation 2.4 that a majority of the Board should be independent. While the Board recognises the importance of having appropriate independence on the Board, the Board is satisfied that its composition does not impact the Board's ability to act in accordance with the best interests of the Company and its shareholders generally.

Skills and experience

The Directors on the Board collectively have a combination of skills and experience in the competencies set out in the table below. The Board has established this set of competencies to assist in assessing the skills and experience of each Director and the combined capabilities of the Board.

| Area | Competency |
|--|--|
| Resources industry experience | Experience in the resources industry, including broad knowledge of exploration, operations, project development, markets, shipping and competitors. |
| Mineral sands industry experience | Specific experience in the mineral sands industry, including an in depth knowledge of exploration, operations, project development, markets, shipping, competitors and relevant technology. |
| Strategy | Identifying and critically assessing strategic opportunities and threats to an organisation and developing and implementing successful strategies in context to the organisation's policies and business objectives. |
| Mergers & acquisitions | Experience managing, directing or advising on mergers, acquisitions, divestments and portfolio optimisations. |
| Finance | Senior executive or other relevant experience in financial accounting and reporting, internal financial and risk controls, corporate finance and, restructuring corporate transactions. |
| Risk management | Experience working with and applying broad risk management frameworks in various country, regulatory or business environments, identifying key risks to an organisation, monitoring risks and compliance and knowledge of legal and regulatory requirements. |
| Government relations | Senior management or equivalent experience working in diverse international political, cultural, regulatory and business environments. |
| Capital projects; financing/ project management | Experience with projects involving contractual negotiations, project management, significant capital outlays and long investment horizons. |
| Sustainable development | Senior management or equivalent experience in workplace health and safety, environmental and social responsibility, and community. |
| Previous board experience | Serving on boards of varying size and composition, in varying industries and for a range of organisations. An awareness of global practices and benchmarking and some internal experience. |
| Governance | Implementing the high standards of governance in a major organisation that is subject to rigorous governance standards, and assessing the effectiveness of senior management. |
| Policy | Identifying key issues for an organisation and developing appropriate policy parameters within which the organisation should operate. |
| Executive leadership | Experience in evaluating the performance of senior management, overseeing strategic human capital planning, industrial relations, organisational change management and sustainable success in business at a senior level. |
| Remuneration | Remuneration and/or nomination committee membership or management experience in relation to succession planning, remuneration, talent management (including incentive programmes, superannuation), and the legislative and contractual framework governing remuneration. |

Corporate governance

Details of the skills, experiences, expertise and period of service of each Director is set out on pages 31 to 33 of the Annual Report. The Board considers that collectively the Directors have the range of skills, knowledge, experience and competencies necessary to effectively direct the Company. That said, the Board has identified certain areas and competencies in which continued development is desirable. These areas will be the focus of continuing Board education during the next year and will be considered as part of Board succession planning.

Director appointment, induction, training and continuing education

All new non-executive Directors are required to execute a letter of appointment which sets out the key terms and conditions of their appointment, including duties, rights and responsibilities, envisioned time commitments and the Board's expectations with respect to committee work. Executive directors and all senior executives enter into employment agreements which govern the terms of their employment.

An induction plan is tailored for the specific needs of any new appointee to the Board. The induction process typically includes a comprehensive overview of the Company's governance policies and procedures, discussions with each member of EXCO and the executive management team and a site visit to the Company's key operating asset in Kwale, Kenya. The

induction materials provided to new appointees include information on the Company's culture, including the "Base Way" (the set of core beliefs and principles that permeate every aspect of the Company's business and describes the Company's desired culture).

Directors are expected to maintain the skills necessary to discharge their obligations to the Company and its shareholders. The Company provides the Board with regular information on industry-related matters and new developments with the potential to affect the Company. When a particular need is identified (for example, arising from a Board function review), the Company will organise specific structured professional development opportunities for Directors.

The Board manages succession planning with the assistance of the Remuneration & Nomination Committee. No new appointments were made to the Board during the financial year ended 30 June 2017. Should a vacancy exist or should it otherwise become appropriate for Board changes to be implemented, it is the responsibility of the Remuneration & Nomination Committee (among other things) to identify and recommend to the Board candidates for the Board after considering the necessary and desirable competencies of new Board members to ensure the appropriate mix of skills, experience, expertise and diversity, and after assessment of how the candidate can contribute to the strategic direction of the Company. The Board may engage an

independent recruitment firm to undertake a search for suitable candidates. The Company undertakes appropriate background and screening checks prior to nominating an individual for election as a Director by shareholders, and provides shareholders all material information in its possession concerning a Director standing for election or re-election in the explanatory memorandum accompanying the relevant notice of meeting.

Board performance evaluation

It is the Company's policy that once a year, the Board will review and critically evaluate the performance of the Board, the Board Committees and individual Directors. The Board sets the method and scope of the performance evaluation each year, which typically includes self-assessments designed to effectively review the performance of the Board and each of its Committees against the requirements of their specific charters and the individual performance of each Director. In appropriate circumstances, the Board performance evaluation may involve engagement of a third-party Board advisor. The process for this annual review is set out in further detail in the Board Charter.

A performance evaluation of the Board, its Committees and individual Directors was undertaken during the reporting period ended 30 June 2017. This review comprised of a questionnaire process completed by each Director designed to assess performance of the Board,

the Chairman and each Committee and its Chairman. The key outcomes of the questionnaire process were analysed and considered at subsequent Board and Committee meetings. The Chairman also undertook separate review discussions with each individual Director. Overall, the results of the review process were pleasing, indicating that the Board, its Committees and individual Directors are considered to be performing their respective roles effectively. The review process also identified a small number of opportunities for improvement that will be addressed through the coming year.

Director retirement and re-election

With the exception of the Managing Director, directors must retire at the third AGM following their last election or re-election. At least one Director must stand for election at each AGM. Any director appointed to fill a casual vacancy since the date of the previous AGM retires at the next AGM and is eligible for election. Board support for a Director's re-election is not automatic and is subject to satisfactory Director performance. It is the role of the Remuneration & Nomination Committee to consider and recommend to the Board candidates for election or re-election to the Board.

Committees of the Board

Under the Company's Constitution the Board may delegate its powers as it

considers appropriate. The Board has established an Audit Committee, Remuneration & Nomination Committee and Risk Committee. In addition to these standing Committees, in June 2016 the Board established an ad hoc Taurus Refinancing Committee to assist the Board in assessing the available options for repayment or refinancing of the Company's US\$20 million facility from Taurus Funds Management. As this facility was retired in July 2017, the Taurus Refinancing Committee was no longer required and was formally dissolved by the Board in August 2017.

The Committees generally operate in a review or advisory capacity, except in limited circumstances where the Board's powers are specifically delegated to a Committee. Each Committee has a charter detailing its role, duties and membership requirements. These charters are reviewed regularly, and at least annually, and are updated as required.

Details of the skills, experiences and expertise of each member of the respective Committees of the Board is set out on pages 31 to 33 of the Annual Report. Details of the Committee meetings held during the year and attendances of members at those meetings is set out on page 33 of the Annual Report.

Audit Committee

The role of the Audit Committee is to assist the Board to meet its oversight responsibilities in relation to the Company's financial reporting, compliance with legal and regulatory requirements and external audit function.

The Audit Committee had four members as at 30 June 2017, which during the year were Mr Willis, Mr Spence, Mr Anderson (resigned 31 August 2017) and Mr Macpherson all of whom are non-executive Directors and a majority of whom are independent. Mr Willis, an independent non-executive Director, is Committee Chairman.

Remuneration & Nomination Committee

The role of the Remuneration & Nomination Committee with respect to remuneration matters is to assist the Board in fulfilling its oversight responsibilities in relation to the overall remuneration strategy of the Company, and its specific application to EXCO and the senior management team, and reviewing and approving any equity based plans and other incentive schemes. This role is designed to assist in ensuring that the executive remuneration policy demonstrates a clear relationship between executive performance and remuneration.

The role of the Committee with respect to nomination matters is to support the Board in fulfilling its responsibilities by maintaining a Board that has an appropriate mix of skills and experience, developing the processes for evaluation of performance of the Board and its Committees, ensuring the Company's Diversity Policy is implemented in respect of the Board and managing the process for identifying and selecting new Directors.

The Remuneration & Nomination Committee has four members, all of whom

are non-executive Directors and a majority of whom are independent. Members of the Committee were Mr Spence, Mr Willis, Mr Macpherson and Mr Stirzaker. Mr Spence, an independent non-executive Director, is Committee Chairman.

Risk Committee

In July 2015, the Board established a Risk Committee which has the role of assisting the Board with identification and management of business and operational risks faced by the Company to a standard that takes into account the reasonable expectations of the Company's shareholders, employees, customers, suppliers, creditors and the broader community in which the Company operates.

The Risk Committee conducts a full review and update of the Company's material business risk register and risk management framework regularly, and at least annually.

The Risk Committee has four members, all of whom are non-executive Directors and a majority of whom are independent. Members of the Committee are Mr Spence, Mr Willis, Mr Stirzaker and, with effect from 1 February 2017, Mr Macpherson. Mr Spence, an independent non-executive Director, acted as Committee Chairman until 31 January 2017. Mr Macpherson joined the Committee with effect from 1 February 2017 and was nominated as Committee Chairman from that time. The change in Committee Chairman during the year was intended to address a potential concern about the workload of Mr Spence.

Taurus Refinancing Committee

In June 2016, the Board established the ad hoc Taurus Refinancing Committee which had the primary purpose of assisting the Board in assessing the available options for repayment or refinancing of the Company's US\$20 million facility from Taurus Funds Management. The Taurus Refinancing Committee was not a separately remunerated committee. Members of the Committee were Mr Willis, Mr Spence, Mr Carstens and the Company's Chief Financial Officer whom had been seconded to the Committee. Mr Willis, an independent non-executive Director, was Committee Chairman. As this facility was retired in July 2017, the Taurus Refinancing Committee was no longer required and was formally dissolved by the Board in August 2017.

SHAREHOLDER COMMUNICATION

General

The Board recognises the importance of regular and proactive interaction with the market to ensure the Company's investors and key stakeholders remain informed about the Company's activities. The Company has an investor relations programme designed to facilitate effective two-way communication with shareholders.

The Company's Continuous Disclosure and Market Communications Policy sets out the Company's commitment to:

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- communicating effectively with shareholders through releases to the market via ASX and AIM, information mailed to shareholders (e.g. notices of meetings and explanatory material and periodic disclosure, such as annual, half yearly and quarterly reporting of exploration, production and corporate activities) and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals; and
- making it easy for shareholders to participate in general meetings of the Company.

The Board further recognises the rights of shareholders and encourages the effective exercise of those rights through the following means:

- notices of meeting and other meeting materials are drafted in concise and clear language and are distributed in accordance with the provisions of the Corporations Act;
- shareholders are encouraged to use their attendance at meetings to ask questions on relevant matters, with time being specifically set aside at each meeting for shareholder questions;
- shareholders are encouraged to participate in voting on proposed resolutions by either attending the meeting or by way of lodgement of proxies, if shareholders are unable to attend the meeting;

- it is general practice for a presentation on the Company's recent activities to be made to shareholders at each annual general meeting; and
- at annual general meetings, it is both the Company's policy and the policy of the Company's auditor for the lead engagement partner to be present at the annual general meeting to answer any questions regarding the conduct of the audit and the preparation and content of the auditor's report.

The Company's website (www.baseresources.com.au) provides information about the Company generally for the benefit of its shareholders, market participants and key stakeholders. The Company's website is promptly updated with material released to ASX and AIM after confirmation of release by ASX. All information available on the Company's website is regularly reviewed and updated to ensure that information is current, or appropriately dated and archived. Of note, the Company's website includes the following sections which contain relevant information for shareholders:

- a governance section, which contains the Company's current Constitution, relevant governance policies and practices, Board and Board Committee Charters;
- a Board and management section, which contains the names and brief biographical information for each of the Directors and senior executives;

- a reports section, which contains copies of annual, half yearly and quarterly reports; and
- a market releases section containing ASX announcements (including full text of notices of meeting and explanatory material) and a presentations section containing power point presentations.

Further information about operations at the Kwale Project are made available from the website of the Company's wholly-owned operating subsidiary, Base Titanium (www.basetitanium.com).

The Company provides the opportunity for and encourages shareholders to receive communications from, and send communications to, the Company and its securities registry electronically. The Company makes available telephone, fax and email contact details on its website through which shareholders are welcomed to contact the Company.

Continuous disclosure and market communications

The Company is committed to ensuring that shareholders and the market are provided with full and timely information about the Company and its activities and that all investors have equal opportunity to receive externally available information issued by the Company.

The Company's Continuous Disclosure and Market Communications Policy

provides that the Managing Director and the Company Secretary are primarily responsible for ensuring that the Company complies with its disclosure obligations and for overseeing and co-ordinating the disclosure of information to relevant stock exchanges, shareholders and applicable regulatory authorities. To assist in this process, it is the responsibility of every Director and employee to report to the Company Secretary any potentially price sensitive information which that person has obtained. To the full extent practical (having regard to the requirement for immediate disclosure in certain circumstances), the Board is given the opportunity to review and comment on material announcements prior to their release.

PROMOTING RESPONSIBLE AND ETHICAL BEHAVIOURS

The 'Base Way', Code of Conduct and Integrity System

The 'Base Way' sets out the unifying set of beliefs and behavioural expectations for the Company and its employees, including the Company's absolute commitment to conducting its business in a legal, honest and ethical manner.

The Company's Code of Conduct provides an overview of the framework for decision making and actions in relation to ethical conduct in employment at the Company and its subsidiaries. The Code of Conduct summarises the key business systems (including relevant Policies

and Standards) adopted by the Company that apply to the Company and its subsidiaries and their respective employees which underpin the Company's commitment to integrity and fair dealing in its business affairs and to its duty of care to employees, customers and stakeholders. Breaches of the Code of Conduct may lead to disciplinary action, as outlined in the Company's Unacceptable Performance and Misconduct System.

The Company's Integrity Policy expands on the Company's commitment to conducting its business in a legal, honest and ethical manner by:

- Prohibiting bribery and corruption in all forms. Employees must not commit, or be a party to, or be involved in bribery or corruption.
- Ensuring that gifts, entertainment, travel and per diem reimbursements are not given or received as a reward or encouragement for preferential treatment.
- The Company not participating in party politics. The Company does not make payments to political parties or individual politicians.
- Not making charitable donations or sponsorships that could be perceived as bribes or payments to gain an improper business advantage.
- Employees ensuring their personal activities and interests do not conflict with their responsibilities to the Company.

- Requiring third parties who act on the Company's behalf to comply with the Integrity Policy and the Integrity Standard.
- Requiring all employees to confront inappropriate behaviour in others.
- Including demonstrating the "Base Way" as a specific accountability in every role description.

The Integrity Standard further sets out the responsibilities and limits of discretion of the Company's personnel in observing and upholding the absolute prohibition on bribery, corruption and related improper conduct and provides information and guidance on how to recognise and deal with instances of potential bribery and corruption. A breach of the Integrity Standard by a member of the Company's personnel will be regarded as serious misconduct, and will lead to disciplinary action which may include termination of employment. The Company also has a Whistleblower System to provide a confidential mechanism for employees to hold their leaders and co-workers accountable if not behaving with absolute integrity.

The Company is a signatory to the Extractive Industries Transparency Initiative (EITI), which was launched in 2002 at the World Summit for Sustainable Development. The EITI has put in place a reporting system to encourage transparency and accountability in the receipt and use by Governments of revenues from extractive industries. EITI supports good governance through

the verification and full publication of payments by companies and use of government revenues derived from oil, gas and mining. The Company provides these publications via the governance section of the Base Titanium website (www.basetitanium.com).

Securities ownership and dealing

The Company's Securities Trading Policy (which was last updated with effect from 1 September 2016) applies to Directors and employees of the Company and its subsidiaries. This policy provides a brief summary of the law on insider trading and sets out the policy requirements for the sale, purchase and conversion/exercise of the Company's securities by Directors and employees. The purpose of the policy is to:

- assist Directors and employees to avoid conduct known as "insider trading";
- explain the type of conduct in relation to dealings in securities of the Company that is prohibited under the Corporations Act and the European Union's Market Abuse Regulation; and
- establish a procedure relating to dealing in the Company's securities that provides best practice protection to the Company, its Directors and employees against the misuse of unpublished information which could materially affect the price or value of the Company's securities.

Any dealing in the Company's securities by Directors is notified to ASX, and any dealing by directors or other persons discharging management responsibility is notified to AIM and the United Kingdom's Financial Conduct Authority, without delay. Directors and employees participating in equity based incentive plans are also prohibited from entering into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the Company's securities.

Strict compliance with the Securities Trading Policy is mandatory for all Directors and employees of the Company and its subsidiaries. Any breach of this policy is taken seriously and is subject to disciplinary action, including possible termination of a person's employment or appointment.

RISK MANAGEMENT AND INTERNAL CONTROLS

Approach to risk management internal controls

The Company recognises that risk is an integral and unavoidable component of its business and is characterised by both risk and opportunity. The effective management of risk enables the Company to enhance opportunities, reduce threats and in so doing represent a source of competitive advantage. The Company is committed to managing risk in a proactive manner that is integrated

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throughout the business and informs all decision making as part of day to day management.

Risk management roles and responsibilities

The Company established a Risk Committee of the Board in July 2015. The Risk Committee's role is to assist the Board in monitoring risk, with a full review and update of the Company's material business risk register and risk management framework occurring regularly, and at least annually.

The Company does not have a formal internal audit function, however it has a well-established Risk Management Framework. The Risk Committee annually reviews the need for a formal internal audit function and when last considered at the March 2017 Committee meeting, the Committee determined that a formal internal audit process was not required or justifiable at this time. It is noted, however, that this could change in the future - particularly depending on execution of the Company's growth strategy.

The Risk Committee is responsible for reviewing and approving the Company's Risk Management Framework, Risk Policy and key risk parameters at least annually, with the Committee having reviewed the Company's Risk Management Framework during the year. The Risk Committee is responsible for (amongst other things):

- ensuring that management designs and implements a risk management and

internal control system to manage the Company's material business risks;

- reviewing at least annually the Company's risk management and internal control system and reporting to the Board on its efficiency and effectiveness;
- reviewing the risk reports produced by management and reviewing the efficiency and effectiveness of that risk management and internal control system;
- developing and maintaining a risk register which identifies the material business risks to the Company and its operations (including economic, environmental and social sustainability risks) and assessing the likelihood of their occurrence;
- periodically reviewing the scope and adequacy of the Company's insurance, having regard to the Company's business and its associated insurable risks;
- overseeing the Company's operational and environmental risk management and occupational health and safety processes; and
- overseeing procedures for whistleblower protection.

Management is responsible for promoting and applying the Risk Policy, which involves establishing a risk-aware culture, identifying and assessing business and operational risks, developing and implementing appropriate risk strategies, systems

and controls, monitoring the effectiveness of risk controls and reporting on risk management and performance. Management also maintains the Material Business Risk Register, which is considered by the Risk Committee on a regular basis – typically at each Committee meeting.

The Company is exposed to a number of risks across its business, which it seeks to manage in a manner consistent with its Risk Management Framework. These risks are categorised by the Company as strategic (e.g. the Company's ability to execute its growth strategy, access to exploration opportunities), financial (e.g. funding continuity), regulatory (e.g. political, mining and fiscal policy) or operational (e.g. community, safety, security, human resources and production).

The Company has identified that it has a material exposure to certain environmental and social sustainability risks associated with its operation of the Kwale Project. Communities affected by the Kwale Project play an integral role in the Company's overall success, which the Company seeks to achieve through a structured and integrated community engagement approach. The Company strives to build lasting and beneficial relationships with its communities. By supporting equitable development, the Company seeks to establish a model for future development opportunities in other parts of Kenya and beyond, in a manner that emphasises the value of local community participation and recognises their cultural heritage. The Company's

Communities Policy is based on working together in a way that allows broad participation of affected people through mutual respect and demonstrates the Company's long-term commitment to delivering real, tangible and sustainable benefits. The Company's social management systems have been prepared to the highest international standards to guide the Company in achieving this objective.

The Company is also committed to undertaking its activities in a way that minimises impact on the environment. The Company's Environmental Policy and the "Base Way" drive the Company's commitment to preventing pollution, minimising impacts, contributing to protecting and conserving biodiversity and driving environmentally responsible behaviour.

The Company believes that good environmental performance contributes to business success. The Company empowers its employees to work in an environmentally responsible manner and encourages everyone to take responsibility in this regard. The Company works in partnership with its host communities, conservation groups and environmental experts to realise its objectives and regularly reviews environmental performance to achieve continuous improvement. A comprehensive understanding of the environmental impacts during design, construction, operations and ultimately closure of the Kwale Project direct the Company's environmental programmes. A dedicated and professional team manages the Kwale

Project's environmental function based on an environmental management system guided by the Environmental Policy. Refer to pages 9 to 13 of the Annual Report for more detail on the Company's current sustainability practices.

CEO AND CFO ASSURANCE

The Board receives monthly reports on the group's financial and operational results. Before adoption by the Board of the 31 December 2016 half-year and 30 June 2017 full-year financial statements, the Audit Committee and the Board received written declarations from the Managing Director and the Chief Financial Officer that, in their opinion, the financial records of the Company had been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that their opinion had been formed on the basis of a sound system of risk management and internal control which was operating effectively.

DIVERSITY

The Company values and encourages a diverse workforce and provides a work environment in which everyone is treated fairly, with respect and can realise their full potential. As set out further in the Company's Employment Policy, the Company seeks to achieve this by:

- Employing on the basis of job requirements and merit without discriminating on the grounds of age, ethnic or social origin, gender, sexual orientation, politics or religion.
- Ensuring its people are trained to work, and then working, in safe, healthy and environmentally responsible ways.
- Requiring managers to be models of the highest standards of behaviour and to demonstrate visible leadership. The Company's employees must treat each other and those they deal with externally with dignity, fairness and respect. The Company's employees must guard against harassment in the workplace.
- Maintaining codes of conduct and performance standards that establish sound conditions of work and disciplinary procedures in compliance with all applicable laws and which uphold human rights principles. Remuneration and incentive systems are equitable and transparent.
- Establishing and developing integrated employment management systems that seek to elevate employee engagement within the Company to a recognised competitive advantage.
- Including demonstrating the 'Base Way' as a specific accountability in every employee's role description.

A key focus of the Company since before commencement of operations in late 2013

has been establishment of an operational workforce that delivers on commitments to maximise employment opportunities for local communities, whilst achieving the highest standards of operational and safety performance. As at 30 June 2017, the Company is pleased to report that it employed 95.4% Kenyan national employees at Kwale, an increase from the 94.5% employed as at 30 June 2016. This increase evidences the effectiveness of the Company's systems which are designed to drive a structured transfer of skills over time.

While the primary focus to date has been on maximising Kenyan participation, workforce establishment and performance enhancement, in July 2015 the Company's Diversity Standard was revised to require that the Board set measurable objectives for achieving gender diversity, for those objectives to be reviewed annually and for the Board to assess annually progress in achieving those objectives.

The Board set the following measurable objectives which applied for the financial year ended 30 June 2017:

- Increase the overall percentage of women employed by the group.
- Maintain female representation in graduate and apprentice programmes at or above one third.
- Subject to vacancies, increase the percentage of women in executive roles (Stratum III and above).
- Subject to vacancies,

to consider diversity when reviewing Board succession plans with the aim to have gender representation and greater diversity.

The above objectives were considered appropriate for the Company given its current state of operations, in particular reflecting the relative stability of the Company's workforce which naturally reduces the opportunities to increase gender diversity as rapidly going forward.

The Board is pleased to report that for the financial year ended 30 June 2017, the group maintained the overall percentage of women employed and satisfied its set objective of maintaining female representation in graduate and apprentice programmes at or above one third.

The Company considers that, given the relatively low turnover of senior employees, the group's graduate and apprenticeship programmes continue to represent the greatest opportunity to increase female representation within the Company over time. We note that recruitment timing and overall cycles for our graduate and apprentice programmes do not correspond with the financial year. Therefore, the figures reported as at the end of the financial year are not always representative of the balance of persons employed during the period. An example of this is that a large number of apprentices finished their programme in May 2017 (and therefore are not included in the financial year-end figures),

Corporate governance

with recruitment for the next intake currently underway and expected to be completed in October 2017. So, while the set objective to maintain female participation in this group at or above one third was clearly achieved, this will be an area of continued focus in FY 2018 (including in the upcoming recruitment process).

During the year ended 30 June 2017, there were no vacancies on the Board and therefore no opportunity presented itself to increase diversity on the Board. It is not considered appropriate for the Board to simply increase its size, however increasing diversity is firmly part of the Board's succession planning.

Shown below is the Company's performance in achieving its set objectives during the year ended 30 June 2017, as compared to the two prior periods.

| Objective | 30 June 2015 (% women) | 30 June 2016 (% women) | 30 June 2017 (% women) | Change during FY 2017 (% women) |
|---|---------------------------|---------------------------|---------------------------|------------------------------------|
| Increase the overall percentage of women | 15 | 16 | 16 | 0 |
| Female representation in graduate and apprentice programmes at or above one third | 10 | 28 | 48 | 20 |
| Women in executive roles (Stratum III and above) | 10 | 16 | 15 | -1 |
| Board gender diversity | 0 | 0 | 0 | 0 |

In executive roles, it is acknowledged that there was a slight decrease in female representation during the period attributable to the addition of one new male manager position at Kwale operations. This new manager position was an elevation of an existing role, filled by an individual that had been on a long-term development programme for this promotion, and consequently this did not present an opportunity to increase gender diversity within management.

The Board has determined to maintain the existing measurable objectives for the coming financial year, except that the objective with respect to female representation in graduate and apprentice programmes will be measured based on the intake of graduates and apprentices as distinct from simply measuring as at 30 June and will be subject to the constraint of the operation of the Company's established system for prioritising employment opportunities to local communities.

The Board will report progress in achieving the revised objectives in next year's corporate governance statement.

AVAILABILITY OF KEY CORPORATE GOVERNANCE DOCUMENTS

The following suite of the Company's key corporate governance policies and procedures are available from the Company's website at <http://www.baseresources.com.au/company-profile/governance/>.

- Constitution
- Board Governance Plan (including Board Committee Charters)
- Code of Conduct
- Securities Trading Policy
- Continuous Disclosure and Market Communications Policy
- Risk Management Policy
- Environment Policy
- Communities Policy
- Employment Policy
- Diversity Standard
- Health and Safety Policy

Lead Auditor's Independence Declaration

under Section 307C of the Corporations Act 2001

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To the Directors of Base Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Base Resources Limited for the financial year ended 30 June 2017 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG.

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta'.

R Gambitta
Partner

Perth
26 August 2017

Consolidated statement of profit or loss & other comprehensive income

for the year ended 30 June 2017

| | Note | 2017 \$000s | 2016 \$000s |
|--|------|----------------|-----------------|
| Sales revenue | 1 | 215,495 | 169,039 |
| Cost of sales | 1 | (138,117) | (133,620) |
| Profit from operations | | 77,378 | 35,419 |
| Corporate and external affairs | | (10,919) | (11,276) |
| Community development costs | | (3,588) | (3,921) |
| Selling and distribution costs | | (2,690) | (4,114) |
| Other expenses | | (122) | (2,731) |
| Profit before financing costs and income tax | | 60,059 | 13,377 |
| Financing costs | 1 | (31,223) | (34,256) |
| Profit / (loss) before income tax | | 28,836 | (20,879) |
| Income tax expense | 3 | (7,805) | (40) |
| Net profit / (loss) for the year | | 21,031 | (20,919) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences - foreign operations | | (6,516) | 5,336 |
| Total other comprehensive (loss) / income for the year | | (6,516) | 5,336 |
| Total comprehensive income / (loss) for the year | | 14,515 | (15,583) |
| Net Earnings / (loss) per share | | | |
| | | Cents | Cents |
| Basic earnings / (loss) per share (cents per share) | 2 | 2.85 | (3.41) |
| Diluted earnings / (loss) per share (cents per share) | 2 | 2.63 | (3.41) |

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of financial position

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as at 30 June 2017

| | Note | 30 June 2017 \$'000s | 30 June 2016 \$'000s |
|--|------|-------------------------|-------------------------|
| Current assets | | | |
| Cash and cash equivalents | | 36,790 | 36,295 |
| Restricted cash | 5 | 34,042 | 29,761 |
| Trade and other receivables | 6 | 57,317 | 43,544 |
| Inventories | 7 | 24,090 | 27,962 |
| Other current assets | | 5,891 | 5,826 |
| Total current assets | | 158,130 | 143,388 |
| Non-current assets | | | |
| Capitalised exploration and evaluation | | 2,652 | 1,487 |
| Property, plant and equipment | 8 | 334,634 | 390,304 |
| Total non-current assets | | 337,286 | 391,791 |
| Total assets | | 495,416 | 535,179 |
| Current liabilities | | | |
| Trade and other payables | 9 | 26,926 | 24,953 |
| Borrowings | 10 | 77,034 | 61,816 |
| Provisions | 11 | 1,696 | 1,173 |
| Deferred revenue | | 1,084 | 1,123 |
| Other liabilities | | 841 | 887 |
| Total current liabilities | | 107,581 | 89,952 |
| Non-current liabilities | | | |
| Borrowings | 10 | 114,633 | 196,291 |
| Provisions | 11 | 28,907 | 28,973 |
| Deferred tax liability | 3 | 7,606 | - |
| Deferred revenue | | 1,897 | 3,089 |
| Total non-current liabilities | | 153,043 | 228,353 |
| Total liabilities | | 260,624 | 318,305 |
| Net assets | | 234,792 | 216,874 |
| Equity | | | |
| Issued capital | 12 | 225,298 | 223,548 |
| Reserves | | 48,246 | 54,780 |
| Accumulated losses | | (38,752) | (61,454) |
| Total equity | | 234,792 | 216,874 |

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2017

| | 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 year | - | (20,919) | - | - | (20,919) |
| Other comprehensive income | - | - | - | 5,336 | 5,336 |
| Total comprehensive income for the year | - | (20,919) | - | 5,336 | (15,583) |
| <i>Transactions with owners, recognised directly in equity</i> | | | | | |
| Shares issued during the year, net of costs | 9,417 | - | - | - | 9,417 |
| Share based payments | - | 1,784 | (262) | - | 1,522 |
| Balance at 30 June 2016 | 223,548 | (61,454) | 6,775 | 48,005 | 216,874 |
| Balance at 1 July 2016 | 223,548 | (61,454) | 6,775 | 48,005 | 216,874 |
| Profit for the year | - | 21,031 | - | - | 21,031 |
| Other comprehensive income | - | - | - | (6,516) | (6,516) |
| Total comprehensive income for the year | - | 21,031 | - | (6,516) | 14,515 |
| <i>Transactions with owners, recognised directly in equity</i> | | | | | |
| Shares issued during the year, net of costs | 1,750 | - | - | - | 1,750 |
| Share based payments | - | 1,671 | (18) | - | 1,653 |
| Balance at 30 June 2017 | 225,298 | (38,752) | 6,757 | 41,489 | 234,792 |

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of cash flows

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for the year ended 30 June 2017

| | Note | 2017 \$000s | 2016 \$000s |
|--|-----------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 201,420 | 170,765 |
| Payments in the course of operations | | (101,198) | (92,061) |
| Other | | (42) | (96) |
| Net cash from operating activities | 17 | 100,180 | 78,608 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (8,474) | (4,884) |
| Payments for exploration and evaluation | | (1,217) | (13) |
| Other | | 375 | (174) |
| Net cash used in investing activities | | (9,316) | (5,071) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 10,100 |
| Payment of share issue costs | | - | (683) |
| Repayment of borrowings | | (61,849) | (31,680) |
| Net payments to restricted cash | | (5,320) | (23,230) |
| Payments for debt service costs and re-scheduling fees | | (22,018) | (34,632) |
| Net cash used in financing activities | | (89,187) | (80,125) |
| Net increase / (decrease) in cash held | | 1,677 | (6,588) |
| Cash at beginning of year | | 36,295 | 40,906 |
| Effect of exchange fluctuations on cash held | | (1,182) | 1,977 |
| Cash at end of year | | 36,790 | 36,295 |

The accompanying notes form part of these consolidated financial statements.

Notes to the consolidated financial statements

WHAT'S NEW IN THIS REPORT?

Over the past year we have reviewed the content and structure of the Consolidated Financial Statements looking for opportunities to make them less complex and more relevant to users. This included:

- a thorough review of content to eliminate immaterial disclosures that may undermine the usefulness of the Consolidated Financial Statements by obscuring important information; and
- reorganisation of the notes to the financial statements into four distinct sections to assist users in understanding the Group's performance.

The purpose of these changes is to provide users with a clear understanding of what drives financial performance and financial position of the Group, while still complying with the provisions of the Corporations Act 2001.

An introduction at the start of each section to explain its purpose and content has been added where relevant. Accounting policies and critical accounting judgements applied to the preparation of the financial statements have been grouped with the related accounting balance or financial statement matter. Accounting policies have been documented in simple terms to assist the users of the Consolidated Financial Statements to better understand the Group's financial position and performance.

Estimates and judgements used in developing and applying the Group's accounting policies are continually evaluated and are based on experience and other factors and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The critical estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed in the respective sections of the Consolidated Financial Statements.

To assist in identifying critical accounting judgements, we have highlighted them with the following formatting:

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Basis of Preparation

Base Resources Limited is a company domiciled in Australia. The registered address is located at Level 1, 50 Kings Park Road, West Perth, WA, 6005. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprises the Company and its wholly owned subsidiaries (together referred to as the Group). The Group is a for-profit entity and primarily involved in the operation of the Kwale Mineral Sands Mine in Kenya.

The consolidated financial statements of the Group for the year ended 30 June 2017:

- is a general purpose financial report prepared in accordance with Australian Accounting Standards (AASBs) adopted by the

Australian Accounting Standards Board (AASB) and the Corporations Act 2001;

- comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board;
- are presented in Australian dollars, which is the Group's functional currency and all values are rounded to the nearest thousand dollars (\$000s) unless otherwise stated, in accordance with ASIC instrument 2016/191. The functional currency for the subsidiaries is United States dollars.
- have 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.

Notes to the consolidated financial statements

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Performance for the year

The consolidated financial statements were approved by the Board of Directors on 26th August 2017.

This section analyses the financial performance of the Group for the year ended 30 June 2017. It includes segment performance, earnings per share and taxation.

NOTE 1: SEGMENT REPORTING

The Group's 100% owned Kwale Operation is located in Kenya and generates revenue from the sale of rutile, ilmenite and zircon. Other operations include the Group head office (which includes all corporate expenses that cannot be directly attributed to the Kwale Operation) and exploration activities not directly related to Kwale Operations.

| Reportable segment | 2017 | | | 2016 | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | Kwale Operation | Other operations | Total | Kwale Operation | Other operations | Total |
| | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s |
| Sales revenue | 215,495 | - | 215,495 | 169,039 | - | 169,039 |
| Cost of sales: | | | | | | |
| Operating costs | (68,735) | - | (68,735) | (69,647) | - | (69,647) |
| Changes in inventories of concentrate and finished goods | (5,033) | - | (5,033) | (5,066) | - | (5,066) |
| Royalties expense | (14,782) | - | (14,782) | (11,845) | - | (11,845) |
| Depreciation and amortisation | (49,567) | - | (49,567) | (47,062) | - | (47,062) |
| Total Cost of sales | (138,117) | - | (138,117) | (133,620) | - | (133,620) |
| Profit from operations | 77,378 | - | 77,378 | 35,419 | - | 35,419 |
| Corporate and external affairs | (5,238) | (5,681) | (10,919) | (4,309) | (6,967) | (11,276) |
| Community development costs | (3,588) | - | (3,588) | (3,921) | - | (3,921) |
| Selling and distribution costs | (2,690) | - | (2,690) | (4,114) | - | (4,114) |
| Other income / (expenses) | 468 | (590) | (122) | (2,151) | (580) | (2,731) |
| Profit before financing and tax | 66,330 | (6,271) | 60,059 | 20,924 | (7,547) | 13,377 |
| Financing costs: | | | | | | |
| Interest expense, inclusive of withholding tax | (16,927) | (2,247) | (19,174) | (20,342) | (3,094) | (23,436) |
| Amortisation of capitalised borrowing costs | (3,414) | (3,356) | (6,770) | (3,036) | (3,895) | (6,931) |
| Unwinding of discount on provision for rehabilitation | (1,914) | - | (1,914) | (753) | - | (753) |
| Other | (3,313) | (52) | (3,365) | (3,116) | (20) | (3,136) |
| Total financing costs | (25,568) | (5,655) | (31,223) | (27,247) | (7,009) | (34,256) |
| Income tax expense | (7,805) | - | (7,805) | (40) | - | (40) |
| Reportable profit (loss) | 32,957 | (11,926) | 21,031 | (6,363) | (14,556) | (20,919) |
| Other disclosures: | | | | | | |
| Capital expenditure | 9,342 | 349 | 9,691 | 4,884 | 13 | 4,897 |
| Total assets | 490,178 | 5,238 | 495,416 | 524,505 | 10,674 | 535,179 |
| Total liabilities | 244,706 | 15,918 | 260,624 | 292,204 | 26,101 | 318,305 |

Determination and presentation of operating segments

Operating segments are components of the Group about which separate financial information is available that is evaluated regularly by the Group's senior executives in deciding how to allocate resources and in assessing performance.

The division of the Groups results into segments has been ascertained by identification of revenue / cost centres and where interrelated segment costs exist, an allocation has been calculated on a pro rata basis.

Recognition and measurement of revenue

The Group sells mineral sands under a range of International Commercial Terms (Incoterms). Product sales are recognised as revenue when the Group has transferred both the significant risks and rewards of ownership and control of the products sold and the amount of revenue can be measured reliably. The passing of risk to the customer is usually realised at the point that the physical control is transferred from the Group to the customer. The Incoterms set out the point at which the transfer of risk to the customer takes place and are the ultimate determinant.

Contract terms for the Group's rutile sales allow for a retrospective final price adjustment after shipment based on average market prices in the quarter that the product is shipped. Average market prices are derived from an independently published quarterly dataset of all rutile trades, available approximately four months after the end of each quarter. Sales made under these terms that have not yet been subject to a final price adjustment are recognised at the estimated fair value of the total consideration receivable, which takes into account the latest available market data at the balance date. As a result, rutile sales revenue of \$39.9 million is still subject to final market pricing at 30 June 2017 (2016: \$39.4 million).

Finance income and expenses

Financing income includes interest income on cash held and is recognised as it accrues.

Financing expenses include:

- Interest on borrowings;
- Amortisation of costs incurred to establish the borrowings;
- Finance lease charges; and
- The unwinding of discount on provisions for mine closure and rehabilitation.

Financing expenses are calculated using the effective interest rate method. Finance expenses incurred for the development of mining projects are capitalised up to the point at which commercial production is achieved. Other financing expenses are expensed as incurred.

NOTE 2: EARNINGS / (LOSS) PER SHARE

| | 2017 \$000s | 2016 \$000s |
|--|----------------|----------------|
| Earnings / (loss) used to calculate basic / diluted loss per share | 21,031 | (20,919) |

a. Weighted average number of ordinary shares on issue used in the calculation of basic earnings / (loss) per share

in thousands of shares

| | | |
|--|----------------|----------------|
| Issued ordinary shares at 1 July | 732,232 | 563,903 |
| Effect of shares issued as consideration for Taurus facility extension | 6,657 | - |
| Effect of renounceable entitlement offer | - | 49,237 |
| Weighted average number of ordinary shares at 30 June | 738,889 | 613,140 |

| | 2017 \$000s | 2016 \$000s |
|--|----------------|----------------|
| b. Weighted average number of ordinary shares on issue used in the calculation of diluted earnings / (loss) per share | | |
| <i>in thousands of shares</i> | | |
| Weighted average number of ordinary shares (basic) | 738,889 | 613,140 |
| Effect of performance rights on issue | 62,072 | - |
| Weighted average number of ordinary shares (diluted) at 30 June | 800,961 | 613,140 |

NOTE 3: INCOME TAX

| | 2017 \$000s | 2016 \$000s |
|--|----------------|----------------|
| a. Amounts recognised in profit or loss | | |
| <i>Current income tax</i> | | |
| Income tax expense | 64 | 40 |
| <i>Deferred tax expense</i> | | |
| Origination and reversal of temporary differences | 7,741 | - |
| Income tax expense reported in comprehensive income | 7,805 | 40 |

a. Amounts recognised in equity

| | | |
|---|---|-------|
| Deferred income tax related to items charged or credited directly to equity | | |
| Share issue costs | - | 173 |
| Deferred tax asset not recognised | - | (173) |
| | - | - |

b. Reconciliation of income tax expense to prima facie tax payable

The prima facie tax payable on loss from ordinary activities before tax is reconciled to the income tax expense as follows:

| | | |
|---|--------------|-----------|
| Accounting profit / (loss) before tax | 28,836 | (20,879) |
| Prima facie tax on operating profit / (loss) at 30% (2016: 30%) | 8,651 | (6,264) |
| Add / (less) tax effect of: | | |
| Non-deductible items | 3,710 | 2,599 |
| Share based payments | 275 | 260 |
| Tax losses not recognised | 1,817 | 1,236 |
| Other deferred tax assets not brought to account as realisation not considered probable | 1,320 | 1,206 |
| Effect of tax rates in foreign jurisdictions | (7,968) | 1,003 |
| Income tax attributable to operating profit / (loss) | 7,805 | 40 |

c. Deferred tax liability recognised

| | | |
|--|----------------|----------|
| Tax losses Kenya | 26,517 | 40,802 |
| Other | 1,559 | 1,265 |
| | 28,076 | 42,067 |
| Deferred tax liabilities recognised | | |
| Property, plant and equipment | (35,682) | (42,067) |
| Net deferred tax liability recognised | (7,606) | - |

| | 2017 \$000s | 2016 \$000s |
|-------------------------------------|----------------|----------------|
| d. Deferred tax assets unrecognised | | |
| Deductible temporary differences | 335 | 747 |
| Tax losses Australia | 7,935 | 6,683 |
| Tax losses other | 89 | 75 |
| | 8,359 | 7,505 |

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2017 and 2016 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- i. The Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- ii. The Group continues to comply with conditions for deductibility imposed by law; and
- iii. No changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure.

Recoverability of deferred tax assets

Balances related to taxation disclosed are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents the directors' best estimate, pending an assessment by the tax authorities in Australia and jurisdictions where it has foreign operations.

A deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively, sale of the respective areas of interest will be achieved. This includes estimates and judgements about commodity prices, exchange rates, future capital requirements, future operational performance and the timing of estimated cash flows. Changes in these estimates and assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets.

Recognition and measurement of income taxes

The income tax expense / benefit for the year comprises current income tax expense / benefit and deferred tax expense / benefit.

Current income tax expense charged to the Statement of Profit or Loss and Other Comprehensive Income is the expected tax payable or recoverable on the taxable income or loss calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date, and any adjustment to tax payable in respect of previous years. Deferred income tax expense reflects movements in deferred tax asset and liability balances during the year as well as unused tax losses.

Current and deferred income tax expense / benefit is charged or credited directly to equity instead of the Statement of Profit or Loss and Other Comprehensive Income when the tax relates to items that are credited or charged directly to equity.

Current tax assets and liabilities are measured at the amounts expected to be paid to / recovered from the relevant taxation authority.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

NOTE 4: OPERATING CASHFLOWS

The Group's operating cashflow reconciled to profit after tax is as follows:

| | 2017 \$000s | 2016 \$000s |
|---|----------------|----------------|
| Profit / (loss) for the year | 21,031 | (20,919) |
| Depreciation and amortisation | 49,567 | 47,062 |
| Share based payments | 1,653 | 1,522 |
| Financing costs classified as financing activity | 31,223 | 34,256 |
| Amortisation of deferred revenue | (1,105) | (1,145) |
| Income tax expense | 7,805 | 40 |
| Changes in assets and liabilities: | | |
| (Increase) / decrease in receivables and other assets | (14,049) | 11,310 |
| Decrease in inventories | 3,872 | 3,622 |
| Increase in trade and other payables | 150 | 2,988 |
| Increase / (decrease) in provisions | 33 | (48) |
| Cash flow from operations | 100,180 | 78,608 |

Notes to the consolidated financial statements

Operating assets and liabilities

This section presents information about the Group's assets and liabilities, including its policies and processes for measuring and estimating these balances.

NOTE 5: RESTRICTED CASH

| | 2017 \$000s | 2016 \$000s |
|-----------------|----------------|----------------|
| Current | | |
| Restricted cash | 34,042 | 29,761 |

Under the terms of the Kwale Facility, sufficient funds are required to be held on account in order to meet the debt servicing requirements of the next six months.

NOTE 6: TRADE AND OTHER RECEIVABLES

| | 2017 \$000s | 2016 \$000s |
|-------------------|----------------|----------------|
| Current | | |
| Trade receivables | 31,672 | 18,246 |
| VAT receivables | 25,574 | 25,198 |
| Other receivables | 71 | 100 |
| | 57,317 | 43,544 |

Recoverability of construction period VAT receivable

The Group is owed \$25.6 million in VAT receivable by the Government of Kenya, of which \$21.6 million was incurred during the construction of Kwale Operations and is overdue but not impaired. An estimation has been made as to the timing of the receipt of this amount and forms the basis for its classification as a current asset.

NOTE 7: INVENTORIES

| | 2017 \$000s | 2016 \$000s |
|---|----------------|----------------|
| Current | | |
| Heavy mineral concentrate and other intermediate stockpiles – at cost | 6,081 | 9,054 |
| Finished goods stockpiles – at cost | 4,460 | 6,982 |
| Stores and consumables – at cost | 13,549 | 11,926 |
| | 24,090 | 27,962 |

Net realisable value of inventories

Inventories are recognised at the lower of cost and net realisable value ('NRV').

NRV is based on the estimated amount expected to be received when the product is sold, less all costs still to be incurred in converting the relevant inventory to a saleable product, and delivering it to the customer. The computation of NRV for inventories of heavy mineral concentrate and finished product involves significant judgements and estimates in relation to timing of processing, processing costs, transport costs, commodity prices and the ultimate timing of sale. A change in any of these critical assumptions will alter the estimated NRV and may therefore impact the carrying value of inventories.

Recognition and measurement of inventories

Inventories of heavy mineral concentrate and finished product are valued on a weighted average cost basis and include direct costs and an appropriate portion of fixed and variable overhead expenditure, including depreciation and amortisation.

Inventories of consumable supplies and spare parts to be used in production are valued at weighted average cost. Obsolete or damaged inventories are valued at NRV. A regular and ongoing review is undertaken to establish the extent of surplus items, and a provision is made for any potential loss on their disposal.

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

| | Plant & equipment | Mine property and development | Buildings | Capital work in progress | Total |
|---|-------------------|-------------------------------|--------------|--------------------------|----------------|
| | \$000s | \$000s | \$000s | \$000s | \$000s |
| 2017 | | | | | |
| At cost | 282,707 | 196,741 | 8,320 | 1,426 | 489,194 |
| Accumulated depreciation | (94,485) | (57,663) | (2,412) | - | (154,560) |
| Closing carrying amount | 188,222 | 139,078 | 5,908 | 1,426 | 334,634 |
| Reconciliation of carrying amounts: | | | | | |
| Balance at 1 July 2016 | 221,730 | 159,677 | 6,748 | 2,149 | 390,304 |
| Additions | 1,364 | 2,646 | 1 | 2,869 | 6,880 |
| Transfers | 1,899 | 1,594 | 23 | (3,516) | - |
| Disposals | (25) | 38 | - | - | 13 |
| Reduction in mine rehabilitation asset | - | (1,641) | - | - | (1,641) |
| Depreciation expense | (29,003) | (19,132) | (628) | - | (48,763) |
| Effects of movement in foreign exchange | (7,743) | (4,104) | (236) | (76) | (12,159) |
| Balance at 30 June 2017 | 188,222 | 139,078 | 5,908 | 1,426 | 334,634 |
| 2016 | | | | | |
| 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 | 1,587 | 655 | 526 | 2,115 | 4,883 |
| Transfers | 1,480 | - | 21 | (1,501) | - |
| Disposals | (45) | - | - | - | (45) |
| Reduction in mine rehabilitation asset | - | (1,100) | - | - | (1,100) |
| Depreciation expense | (27,994) | (17,781) | (616) | - | (46,391) |
| Effects of movement in foreign exchange | 7,644 | 4,071 | 211 | 48 | 11,974 |
| Balance at 30 June 2016 | 221,730 | 159,677 | 6,748 | 2,149 | 390,304 |

Impairment of assets

At each reporting date, the Group reviews the carrying values of its assets to determine whether there is any indication those assets have been impaired. When impairment indicators are identified, the Group determines the recoverable value of the cash-generating unit to which the assets are allocated, via an estimation of the fair value of the cash-generating unit. Estimating the fair value amount requires management to make an estimate of expected future cash flows from the cash-generating unit over the forecast period and also to determine a suitable discount rate in order to calculate the present value of those cash flows. Key estimates supporting the expected future cash flows include commodity prices, production output and cost forecasts.

Ore reserves and resources estimates

The estimated quantities of economically recoverable reserves and resources are based upon interpretations of geological and geophysical models and require assumptions to be made regarding factors such as future operating costs, future commodity prices, future capital requirements and future operating performance. Changes in reported reserves and resources estimates can impact the carrying value of PP&E, provisions for mine closure and rehabilitation obligations, the recognition of deferred tax assets, as well as the amount of depreciation and amortisation charged to the Statement of Profit or Loss and Other Comprehensive Income.

Recognition and measurement of property, plant and equipment

Each class of property, plant and equipment ('PP&E') is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

PP&E is measured on a historical cost basis. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in the Statement of Profit or Loss and Comprehensive Income during the financial period in which they are incurred.

Any gain or loss on disposal of an item of PP&E is determined by comparing the proceeds from disposal with the carrying amount, and is recognised net within other income / other expenses in the Statement of Profit or Loss and Other Comprehensive Income.

Mine property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable, and also includes subsequent development costs required to bring the mine into production. Any ongoing costs associated with mining which are considered to benefit mining operations in future periods are capitalised.

Depreciation

All PP&E, except freehold land, is depreciated on a straight line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. The depreciation methods used for each class of depreciable assets are:

| Class of plant and equipment | Depreciation method |
|-------------------------------|--|
| Buildings | Straight line at 5% per annum |
| Plant and equipment | Straight line at 10% to 30% per annum |
| Mine property and development | Straight line over remaining mine life |

The assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

NOTE 9: TRADE AND OTHER PAYABLES

| | 2017 \$000s | 2016 \$000s |
|---|----------------|----------------|
| Trade payables and accruals | 12,584 | 15,531 |
| Provision for increase in Government of Kenya royalty (a) | 14,342 | 9,422 |
| | 26,926 | 24,953 |

a. Government of Kenya ('GoK') Royalty

The Group is in ongoing discussions with the GoK with respect to the royalty rate payable for the Kwale Operation in the context of resolution of a number of outstanding issues, including refund of \$21.6 million (US\$16.6 million) VAT receivables related to the construction of Kwale Operations (refer to Note 6). Royalty costs are provided for, and expensed, on the basis of a 5% royalty rate being payable to the GoK, whereas the royalty rate applicable under the terms of the special mining lease, and currently being paid, is 2.5%.

NOTE 10: BORROWINGS

| | 2017 \$000s | 2016 \$000s |
|---|----------------|----------------|
| Current | | |
| Kwale Facility (a) | 61,798 | 35,859 |
| Taurus Facility (b) | 15,351 | 26,962 |
| Capitalised borrowing costs (b) | (6,320) | (4,570) |
| Amortisation of capitalised borrowing costs (b) | 5,721 | 3,111 |
| Finance lease liabilities | 484 | 454 |
| Total current borrowings | 77,034 | 61,816 |
| Non-current | | |
| Kwale Facility (a) | 121,853 | 207,473 |
| Capitalised borrowing costs (a) | (22,738) | (23,298) |
| Amortisation of capitalised borrowing costs (a) | 15,433 | 11,526 |
| Finance lease liabilities | 85 | 590 |
| Total non-current borrowings | 114,633 | 196,291 |
| Total borrowings | 191,667 | 258,107 |

Recognition and measurement of capitalised borrowing costs

All transaction costs directly attributable to establishing the Debt 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.

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 year to 30 June 2017, US\$39.3 million was paid down, reducing outstanding debt to US\$141.2 million (A\$183.7 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 subject to finalising a long term operating licence for the Kwale Operations Port Facility. The remaining tenor of all loan tranches is 3 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 30 June 2017 is 7.72% (30 June 2016: 7.24%), with the difference due to the LIBOR rate.

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. 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.

In October 2016, the Company 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. As consideration for the extension, the Company issued Taurus 10 million fully paid ordinary shares.

In January 2017, US\$7.3 million was received by BRL from the proceeds of the Kwale Operations Cash Sweep. Following the extension of the Taurus Facility final maturity date, a mandatory 75% (US\$5.5 million) was applied towards repayment of the Taurus Facility, thereby reducing the outstanding debt to US\$11.8 million (A\$15.4 million).

Subsequent to year end, on 14 July 2017, following the approval of Kwale Facility lenders to waive their entitlement to 50% of the July 2017 Cash Sweep, US\$14.8 million was distributed up to BRL. BRL applied US\$11.8 million of the Cash Sweep to retire the Taurus Facility, with the remainder available for corporate funding.

Under the terms of the waiver granted, the Kwale Facility lenders proportion of future six-monthly Cash Sweeps from Kwale Operations will increase to 75% until the US\$7.4 million waived has been repaid.

Repayment of the Taurus Facility reduces total debt outstanding to \$183.7 million (US\$141.2 million), subsequent to year end.

NOTE 11: PROVISIONS

| | 2017 \$000s | 2016 \$000s |
|---|------------------------|------------------------|
| Current | | |
| Employee benefits | 1,206 | 1,173 |
| Mine closure and rehabilitation | 468 | - |
| Income tax liability | 22 | - |
| | 1,696 | 1,173 |
| Non-current | | |
| Mine closure and rehabilitation | 28,851 | 28,914 |
| Employee benefits | 56 | 59 |
| | 28,907 | 28,973 |
| Movement in mine closure and rehabilitation: | 2017 \$000s | 2016 \$000s |
| Balance at 1 July | 28,914 | 27,270 |
| Effects of movement in foreign exchange | (1,010) | 872 |
| (Decrease) / increase in rehabilitation estimate | (465) | 32 |
| Unwinding of discount | 1,880 | 740 |
| Balance at 30 June | 29,319 | 28,914 |

Mine closure and rehabilitation obligations

The calculation of the mine closure and rehabilitation provision requires assumptions such as application of environmental legislation, plant closure dates, available technologies, engineering costs and inflation and discount rates. A change in any of the assumptions used may have a material impact on the carrying value of mine closure and rehabilitation obligations.

The mine closure and rehabilitation provision is recorded as a liability at fair value, assuming a risk-free discount rate equivalent to the 5 year US Government bonds rate of 1.89% as at 30 June 2017 (2016: 2.59%) and an inflation factor of 1.27% (2016: 2.13%). Although the ultimate amount to be incurred is uncertain, management has, at 30 June 2017, estimated the asset retirement cost of work completed to date using an expected remaining mine life of 6 years and a total undiscounted estimated cash flow of US\$23,234,044 (2016: US\$22,168,415). Management's estimate of the underlying asset retirement costs are independently reviewed by an external consultant on a regular basis for completeness.

Recognition and measurement of provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

A mine closure and rehabilitation provision is recognised at the commencement of a mining project and/or construction based on the estimated costs necessary to meet legislative requirements by estimating future costs and discounting these to a present value. The provision is recognised as a liability, separated into current (estimated costs arising within twelve months) and non-current components based on the expected timing of these cash flows. A corresponding asset is included in mine property and mine development assets, only to the extent that it is probable that future economic benefits associated with the restoration expenditure will flow to the entity, and is amortised over the life of the mine.

At each reporting date the mine closure and rehabilitation provision is re-measured in line with changes in discount rates and timing or amounts of the costs to be incurred. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved and are dealt with on a prospective basis as they arise.

Changes in the liability relating to mine closure and rehabilitation obligations are added to or deducted from the related asset (where it is probable that future economic benefits will flow to the entity), other than the unwinding of the discount which is recognised as a financing expense in the Statement of Comprehensive Income. Changes in the asset value have a corresponding adjustment to future amortisation charges.

The mine closure and rehabilitation provision does not include any amounts related to remediation costs associated with unforeseen circumstances.

Notes to the consolidated financial statements

Capital structure, financial instruments and risk management

This section presents information about the Group's financial assets and liabilities, its exposure to financial risks, as well as its objectives, policies and processes for measuring and managing risks.

NOTE 12: ISSUED CAPITAL

| | 2017 \$000s | 2016 \$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 10) | 10,000,000 | 1,750 |
| 30 June 2017 | 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 Group.

Recognition and measurement of issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

NOTE 13: SHARE-BASED PAYMENTS

a. Share options

Granted options are as follows:

| | Grant date | Number | Issue date |
|-------------------------|------------------|------------|------------------|
| Taurus Funds Management | 23 December 2014 | 30,712,531 | 23 December 2014 |
| Taurus Funds Management | 19 June 2015 | 30,712,530 | 19 June 2015 |

Terms of granted options:

In December 2014, the Group executed the Taurus Facility, which entitled Taurus to 61,425,061 unlisted share options over unissued fully paid shares, for nil consideration and exercisable at \$0.40, with half being issued at execution and half pro-rata on facility drawdown above US\$5 million, which occurred in June 2015.

The fair value of the 61,425,061 options granted during the 2015 financial year were estimated at the date of grant using a Black & Scholes model using the following assumptions: risk-free interest rate of 3%; no dividend yield; volatility factor of the expected market price of the Company's shares of 67% and 91% for each issue respectively; and a contractual life of 4 years.

In July 2015, 1,000,000 options, granted to RFC Corporate Limited, with an exercise price of \$0.25 lapsed unexercised following their expiry. In January 2016, 8,500,000 options with an exercise price of \$0.25 and 7,100,000 options with an exercise price of \$0.09, granted to Key Management Personnel, lapsed unexercised following their expiry.

Summary of shares under option are as follows:

| | Number | Weighted average exercise price |
|---|-------------------|---------------------------------|
| Options outstanding as at 1 July 2015 | 78,025,061 | \$0.35 |
| Granted | - | - |
| Exercised | - | - |
| Lapsed | (16,600,000) | \$0.18 |
| Options outstanding and exercisable as at 30 June 2016 | 61,425,061 | \$0.40 |
| Options outstanding as at 1 July 2016 | 61,425,061 | \$0.40 |
| Granted | - | - |
| Exercised | - | - |
| Lapsed | - | - |
| Options outstanding and exercisable as at 30 June 2017 | 61,425,061 | \$0.40 |

b. Performance rights

Granted performance rights are as follows:

| Performance cycle date | KMP | Other employees | Total |
|------------------------|------------|-----------------|------------|
| 1 October 2014 | 7,707,725 | 2,325,748 | 10,033,473 |
| 1 October 2015 | 33,928,088 | 11,820,343 | 45,748,431 |
| 1 October 2016 | 8,079,009 | 3,227,508 | 11,306,517 |

All performance rights are granted for nil consideration.

The fair value of the performance rights granted during the 2017 financial year has been estimated at the date of grant using a Monte Carlo Simulation model using the following assumptions: risk-free interest rate of 1.86%; no dividend yield; volatility factor of the expected market price of the Company's shares of 80%; and a remaining life of performance rights of 2.88 years. The fair value of the performance rights is recognised over the service period, which commenced on the date of grant of 1 October 2016.

Recognition and measurement of share based payments

The Group LTIP is an equity settled employee share scheme. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of performance rights is ascertained using a recognised pricing model which incorporates all market vesting conditions.

NOTE 14: FINANCIAL RISK MANAGEMENT

The Group's activities expose it primarily to the following financial risks:

- Market risk consisting of commodity price risk, interest rate risk and currency exchange risk;
- Credit risk; and
- Liquidity risk.

The overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. The senior executives of the Group meet on a regular basis to analyse treasury risks and evaluate treasury management strategies in the context of the prevailing economic conditions and forecasts. Risk management policies are approved and reviewed by the Risk Committee and the Board on a regular basis. Financial assets and liabilities of the Group are carried at amortised cost, which approximates fair value.

Recognition and measurement of financial instruments

Non-derivative financial assets

The Group initially recognises loans, receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date at which the Group becomes a party to the contractual provisions of the instrument. Such liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group's financial instruments consist of deposits with banks, accounts receivable and payables. The totals for each category of financial instruments are as follows:

| | Note | 2017 \$000s | 2016 \$000s |
|------------------------------|------|----------------|----------------|
| Financial assets | | | |
| Cash and cash equivalents | | 36,790 | 36,295 |
| Restricted cash | 5 | 34,042 | 29,761 |
| Trade and other receivables | 6 | 57,317 | 43,544 |
| | | 128,149 | 109,600 |
| Financial liabilities | | | |
| Trade and other payables | 9 | 26,926 | 24,953 |
| Kwale Facility | 10 | 183,651 | 243,332 |
| Taurus Facility | 10 | 15,351 | 26,962 |
| Finance lease liabilities | 10 | 569 | 1,044 |
| | | 226,497 | 296,291 |

Commodity price risk

The Group is exposed to commodity price volatility on rutile sales made under contract terms which allow for a retrospective final price adjustment based on average market prices in the quarter the product is sold. Average market prices are derived from an independently published quarterly dataset of all rutile trades, available approximately four months after the end of each quarter. Sales made under these terms that have not yet been subject to a final price adjustment are recognised at the estimated fair value of the total consideration receivable, which takes into account the latest available market data at the balance date.

Rutile sales revenue of \$39.9 million is still subject to final market pricing at 30 June 2017 (2016: \$39.3 million). An interim adjustment to sales revenue has been recorded at the reporting date to align the estimated fair value of these sales with the latest available market data. If commodity prices increased / decreased by 10%, with all other variables held constant, the Group's after tax profit / loss would have increased / decreased by \$4.0 million (2016: \$3.9 million).

Interest rate risk

All tranches of the Kwale Facility carry interest rates of LIBOR plus 630 basis points, inclusive of political risk insurance. The Group does not mitigate its interest rate risk exposure to LIBOR through hedging or other means. The weighted average effective interest rate on the Kwale Facility at 30 June 2017 is 7.72% (30 June 2016: 7.24%).

The Taurus Facility has a fixed interest rate of 10% and a loan maturity date of 30 September 2017. The Taurus Facility was fully repaid subsequent to year end, in July 2017 (refer to Note 10).

The majority of the Group's cash deposits and restricted cash are held in accounts with Nedbank Limited at variable interest rates, as required by the terms of the Kwale Facility.

| | Carrying amount | | Realisable / payable within six months | |
|----------------------------------|------------------|------------------|--|----------------|
| | 2017 \$000s | 2016 \$000s | 2017 \$000s | 2016 \$000s |
| Fixed rate instruments | | | | |
| Financial assets | - | - | - | - |
| Financial liabilities | (15,920) | (28,006) | (15,920) | - |
| | (15,920) | (28,006) | (15,920) | - |
| Variable rate instruments | | | | |
| Financial assets | 70,832 | 66,056 | 31,149 | 39,895 |
| Financial liabilities | (183,651) | (243,332) | (27,191) | (20,491) |
| | (112,819) | (177,276) | 3,958 | 19,404 |

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

| Variable rate instruments (\$000s) | 2017 \$000s | 2017 \$000s | 2016 \$000s | 2016 \$000s |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| Profit or loss | (1,128) | 1,128 | (1,773) | 1,773 |
| Equity | 1,128 | (1,128) | 1,773 | (1,773) |

Currency risk

The Group is exposed to currency risk from bank balances, payables and receivables that are denominated in a currency other than the respective functional currencies of Group entities, being Australian dollar (AUD) and United States dollar (USD).

The Australian dollar carrying amount of the Group's financial assets and liabilities by its currency risk exposure at the reporting date is disclosed below:

30 June 2017

| In \$000s: | AUD | USD | KES | Other | Total A\$ |
|-----------------------------|-------------|-----------------|---------------|-------------|---------------|
| Cash and cash equivalents | 3 | 1,332 | 843 | 4 | 2,182 |
| Trade and other receivables | - | - | 25,574 | - | 25,574 |
| Other current assets | - | - | 233 | - | 233 |
| Trade and other payables | (51) | - | (1,253) | (49) | (1,353) |
| Borrowings | - | (15,351) | - | - | (15,351) |
| Net exposure | (48) | (14,019) | 25,397 | (45) | 11,285 |

30 June 2016

| In \$000s: | AUD | USD | KES | Other | Total A\$ |
|-----------------------------|--------------|-----------------|---------------|--------------|----------------|
| Cash and cash equivalents | 3 | 177 | 318 | 6 | 504 |
| Trade and other receivables | - | - | 25,198 | - | 25,198 |
| Other current assets | - | - | 218 | - | 218 |
| Trade and other payables | (977) | (33) | (1,278) | (149) | (2,437) |
| Borrowings | - | (26,962) | - | - | (26,962) |
| Net exposure | (974) | (26,818) | 24,456 | (143) | (3,479) |

The following significant exchange rates applied during the year:

| | Average rate | | 30 June spot rate | |
|---------|--------------|---------|-------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| AUD:USD | 0.7540 | 0.7283 | 0.7686 | 0.7418 |
| AUD:KES | 77.3030 | 74.3449 | 80.0000 | 75.1880 |

Sensitivity analysis

Based on the financial instruments held at reporting date, had the functional currencies weakened / strengthened by 10% and all other variables held constant, the Group's after-tax profit / (loss) for the year to date would have been \$1.1 million lower / higher (2016: \$0.3 million higher / lower).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and deposits with financial institutions as well as credit exposures to outstanding receivables.

The Group is exposed to counterparty credit risk through sales of mineral sands products under normal terms of trade. Total sales revenue for the year ended 30 June 2017 was \$215.5 million (2016: \$169.0 million). Major customers who individually accounted for more than 10% of sales revenue contributed approximately 61% (2016: 37%) of sales revenue. These customers represent 42% (2016: Nil) of the trade receivables balance at 30 June 2017.

Credit risk arising from sales to customers is managed by the Group's policy to only trade with reputable companies, with whom a long term offtake agreement is held, or where such an agreement is not in place, sales are backed by Letters of Credit held with internationally recognised banks.

The Group is owed \$25.6 million in VAT receivable by the Government of Kenya (Note 6), of which \$21.6 million relates to the construction of Kwale Operations and is overdue but not impaired. An estimation has been made as to the timing of the receipt of this amount and forms the basis for its classification as a current asset.

At the reporting date the carrying amounts of financial assets are adjusted for any impairment and represent the Group's maximum exposure to credit risk, excluding the value of any collateral or other security, which was as follows:

| | 2017 \$000s | 2016 \$000s |
|--|----------------|----------------|
| Financial assets – cash flow realisable | | |
| Cash and cash equivalents | 36,790 | 36,295 |
| Restricted cash | 34,042 | 29,761 |
| Trade and other receivables | 57,317 | 43,544 |
| Total anticipated inflows | 128,149 | 109,600 |

At 30 June 2017, the ageing of trade and other receivables that were not impaired was as follows:

| | 2017 \$000s | 2016 \$000s |
|-------------------------------|----------------|----------------|
| Neither past due nor impaired | 54,265 | 43,170 |
| Past due 1 - 30 days | 3,052 | 374 |
| | 57,317 | 43,544 |

There were no impairment losses in relation to financial assets during the current or the comparative financial year. The maximum exposure to credit risk for financial assets at the reporting date by geographic region of the customer was:

| | 2017 \$000s | 2016 \$000s |
|----------------|----------------|----------------|
| United Kingdom | 65,005 | 55,142 |
| Kenya | 27,068 | 27,434 |
| China | 19,982 | 7,558 |
| USA | 9,976 | 7,679 |
| Australia | 4,404 | 8,776 |
| Other | 1,714 | 3,011 |
| Total | 128,149 | 109,600 |

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with financial liabilities. The Group manages liquidity risk by conducting regular reviews of the timing of cash outflows and the maturity profiles of term deposits in order to ensure sufficient funds are available to meet its obligations.

Financial liability maturity analysis

| | Carrying amount | Contractual cash flows | | | | | |
|---------------------------|-----------------|------------------------|------------------|----------------|---------------|----------------|-------------------|
| | | Total | 2 months or less | 2 – 12 months | 1 – 2 years | 2 – 5 years | More than 5 years |
| | | \$000s | \$000s | \$000s | \$000s | \$000s | \$000s |
| 30 June 2017 | | | | | | | |
| Trade and other payables | 26,926 | 26,926 | 12,584 | 14,342 | - | - | - |
| Kwale Facility | 183,651 | 205,441 | - | 73,864 | 76,541 | 55,036 | - |
| Taurus Facility | 15,351 | 15,744 | - | 15,744 | - | - | - |
| Finance lease liabilities | 569 | 606 | 87 | 433 | 86 | - | - |
| | 226,497 | 248,717 | 12,671 | 104,383 | 76,627 | 55,036 | - |
| 30 June 2016 | | | | | | | |
| Trade and other payables | 24,953 | 24,953 | 15,531 | 9,422 | - | - | - |
| Kwale Facility | 243,332 | 283,316 | - | 50,827 | 77,010 | 155,479 | - |
| Taurus Facility | 26,962 | 28,340 | - | 28,340 | - | - | - |
| Finance lease liabilities | 1,044 | 1,166 | 90 | 448 | 538 | 90 | - |
| | 296,291 | 337,775 | 15,621 | 89,037 | 77,548 | 155,569 | - |

Capital Management

Management controls the capital of the Group in order to maintain an appropriate working capital position to ensure that the Group can fund its operations and continue as a going concern. Capital is managed by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market.

| | 2017 \$000s | 2016 \$000s |
|---------------------------------|----------------|----------------|
| Cash and cash equivalents | 36,790 | 36,295 |
| Restricted cash | 34,042 | 29,761 |
| Trade and other receivables | 57,317 | 43,544 |
| Inventories | 24,090 | 27,962 |
| Other current assets | 5,891 | 5,826 |
| Trade and other payables | (26,926) | (24,953) |
| Borrowings | (77,034) | (61,816) |
| Provisions | (1,696) | (1,173) |
| Deferred revenue | (1,084) | (1,123) |
| Other liabilities | (841) | (887) |
| Working capital position | 50,549 | 53,436 |

Notes to the consolidated financial statements

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Group structure and other information

NOTE 15: PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ended 30 June 2017, the parent entity of the consolidated group was Base Resources Limited.

| Financial performance of the parent entity | 2017 \$000s | 2016 \$000s |
|--|-----------------|----------------|
| Loss for the year | (11,155) | (9,182) |
| Total comprehensive loss for the year | (11,155) | (9,182) |

| Financial position of the parent entity | 2017 \$000s | 2016 \$000s |
|---|----------------|----------------|
| Current assets | 4,353 | 9,530 |
| Non-current assets | 215,425 | 217,225 |
| Total assets | 219,778 | 226,755 |

| | | |
|--------------------------|----------------|----------------|
| Current liabilities | 17,790 | 28,760 |
| Non-current liabilities | 11,804 | 59 |
| Total liabilities | 29,594 | 28,819 |
| Net assets | 190,184 | 197,936 |

| | | |
|-----------------------------|----------------|----------------|
| Issued capital | 225,298 | 223,548 |
| Share-based payment reserve | 6,757 | 6,775 |
| Accumulated losses | (41,871) | (32,387) |
| Total equity | 190,184 | 197,936 |

Parent entity guarantee in respect of Kwale Operation Debt Facility

Base Resources Limited has entered into a shareholder support agreement in relation to the Kwale Facility. Refer to note 10 for further details.

Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Base Resources Limited at the end of the reporting period. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled.

In preparing these financial statements, all inter-group balances and transactions between entities in the Group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

| Controlled entity | Country of Incorporation | Date of Incorporation |
|-----------------------------------|--------------------------|-----------------------|
| Base Titanium (Mauritius) Limited | Mauritius | 15 April 2010 |
| Base Titanium Limited | Kenya | 23 April 2010 |
| Base Exploration Tanzania Limited | Tanzania | 29 April 2016 |

NOTE 16: RELATED PARTIES

| KMP compensation: | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| Short-term employment benefits | 5,328,948 | 5,251,918 |
| Post-employment benefits | 179,168 | 175,794 |
| Share-based payments | 1,334,266 | 1,177,900 |
| Compensating payment for LTIP scale back | 608,434 | - |
| Other long term | 40,482 | (6,505) |
| | 7,491,298 | 6,599,107 |

The 2017 remuneration packages, excluding Short Term Incentive Plan ("STIP") bonus, for all KMP's remain unchanged from 2016, in their base currency. Refer to the Remuneration Report for further details.

Recognition and measurement of short term employee benefits

STIP obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under the STIP where the Group has a present legal or constructive obligation as a result of past services by the employee, and the obligation can be estimated reliably.

Recognition and measurement of defined contribution plans

Contributions are made by the Group to individual defined contribution superannuation plans for Australian directors and employees and are charged as an expense in the Statement of Profit and Loss and Comprehensive Income when incurred.

Other related party transactions

In January 2017, one of the Company's major shareholders, Pacific Road Capital Management Pty Limited ("Pacific Road"), acquired 50% of a Kwale Operation royalty stream from Pangea Goldfields Inc. In the period to 30 June 2017, \$300,000 was paid or is payable to Pacific Road under this royalty arrangement. Mr Stirzaker, non-executive director of the Group, is a director of Pacific Road.

NOTE 17: AUDITORS' REMUNERATION

| | 2017 \$ | 2016 \$ |
|--------------------------------------|----------------|----------------|
| Audit services | | |
| <i>KPMG Australia</i> | | |
| Audit of financial report | 135,000 | 160,000 |
| Overseas KPMG firms | | |
| Audit services | 108,651 | 133,578 |
| | 243,651 | 293,578 |
| Other services | | |
| <i>KPMG Australia</i> | | |
| Tax compliance and advisory services | 98,656 | 32,820 |
| Other services | 11,000 | 10,000 |
| Overseas KPMG firms | | |
| Tax compliance and advisory services | 108,894 | 234,423 |
| | 218,550 | 277,243 |

NOTE 18: NEW ACCOUNTING STANDARDS ADOPTED IN THE CURRENT PERIOD

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2017, however, the Group has not applied the new or amended standards in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts, and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Base Resources has not yet determined the extent of the impact of this standard.

AASB 16 Leases removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low value assets are exempt from the lease accounting requirements. Furthermore, there are changes in accounting over the life of the lease as a front-loaded pattern of expense will be recognised for most leases, even when a constant annual rental is paid. Lessor accounting remains similar to current practice. Base Resources does not expect the implementation of this standard to have a material impact on the financial statements.

AASB 9 Financial Instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Base Resources does not expect the implementation of this standard to have a material impact on the financial statements.

NOTE 19: EVENTS AFTER THE REPORTING DATE

Other than the July 2017 repayment of the Taurus Facility from the proceeds of the US\$14.8 million Cash Sweep from the Kwale Operations (refer Note 10), there have been no significant events since the reporting date.

NOTE 20: COMPANY DETAILS

The principal place of business and registered office of the Company is:

Base Resources Limited (ASX & AIM: BSE)
Level 1
50 Kings Park Road
West Perth
Western Australia

Director's declaration

- 1 In the opinion of the directors of Base Resources:
 - (a) the consolidated financial statements and notes that are set out on pages 64 to 89 and the Remuneration Report in pages 36 to 53 in the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2017.
- 3 The directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Keith Spence
Chairman

DATED at PERTH this 26th day of August 2017

Independent auditor's report

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Base Resources Annual Report 2017
Independent auditor's report



Independent Auditor's report to the shareholders of Base Resources Limited

Report on the audit of the Financial Report

OPINION

We have audited the *Financial Report* of Base Resources Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the *Group's* financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The *Financial Report* comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The *Group* consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

BASIS FOR OPINION

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Independent auditor's report



Value of property, plant and equipment (A\$334,634,000)

Refer to Note 8 to the Financial Report

THE KEY AUDIT MATTER

The value of property, plant and equipment was considered a key audit matter due to:

- The size of the Kwale mine property, plant and equipment balance (being 68% of total assets)
- The mineral sands sector, within which the Group operates, has experienced volatile commodity prices, uncertainty in the global demand for products, and cost reduction mandates, putting pressure on asset values
- The level of judgment required by us in evaluating the Group's assessment of impairment, and
- The Group's market capitalisation at 30 June 2017 was less than the net assets, bringing into question the value ascribed to property, plant and equipment.

The assessment of impairment of the Group's property, plant and equipment, applies significant judgments through the use of assumptions in a fair value less costs of disposal model. These judgments include:

- Forecast sales, production levels, production costs and capital expenditure
- Expected commodity prices for mineral sands
- Discount rate including the assessment of Kenya country risk, and
- Life of mineral reserves.
- In assessing this key audit matter, we involved senior team members and valuation specialists.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures included:

We considered the appropriateness of adopting fair value less costs of disposal methodology by assessing the discounted cash flow forecast model to acceptable valuation techniques

- We assessed the integrity of the fair value less costs of disposal model used
- We assessed the accuracy of previous forecasts by the Group to inform our evaluation of forecasts incorporated in the fair value less costs of disposal model
- We evaluated the sensitivity of the value of property, plant and equipment by considering downside scenarios against reasonably possible changes to the key judgments, such as forecast commodity prices and the discount rate, to determine the assumptions that we focused our testing on
- We assessed key judgments underlying the discounted cash flows (including forecast sales, production levels and production costs) based on the historical performance of Kwale
- We compared the forecast cash flows and capital expenditure contained in the fair value less costs of disposal model to Board approved forecasts
- We compared expected commodity prices to published views of the market commentator on future trends
- We analysed the life of mineral reserves based on the views of an external expert engaged by the Group
- Working with our valuation specialists, we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted for Kenya country risk
- We assessed the Group's analysis of the market capitalisation shortfall versus the total recoverable amount of the CGU. This included consideration of the market capitalisation range implied by recent share price trading ranges and broker target valuation ranges, to the Group's latest internal enterprise valuation model.

Independent auditor's report

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OTHER INFORMATION

Other Information is financial and non-financial information in Base Resources Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report. The Chairman's Letter, and the Operations and Finance Report which includes the Operation Summary, Sustainability in Practice, Business Development, Corporate and Finance, Marketing and Sales, Mineral Sands Outlook and Resources and Reserves, are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Independent auditor's report



REPORT ON THE REMUNERATION REPORT

Opinion

In our opinion, the Remuneration Report of Base Resources Limited for the year ended 30 June 2017, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

- The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001.

Our responsibilities

- We have audited the Remuneration Report included on pages 36 to 53 of the Directors' report for the year ended 30 June 2017.
- Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in blue ink that reads 'KPMG.' with a period at the end.

KPMG

A handwritten signature in blue ink, appearing to be 'R Gambitta'.

R Gambitta
Partner

Perth
26 August 2017

Additional shareholder information

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The following additional information required by the ASX Listing Rules is current as at 25 September 2017.

ORDINARY SHARES

| Distribution of shares | Holders | Units | % |
|------------------------|--------------|--------------------|---------------|
| 1 - 1,000 | 128 | 17,947 | 0.00 |
| 1,001 - 5,000 | 166 | 517,088 | 0.07 |
| 5,001 - 10,000 | 143 | 1,186,186 | 0.16 |
| 10,001 - 100,000 | 455 | 17,823,322 | 2.40 |
| 100,001 and over | 179 | 722,687,413 | 97.37 |
| | 1,071 | 742,231,956 | 100.00 |

There were 149 holders of unmarketable parcels of shares (<\$500) based on the closing share price of \$0.285 as at 25 September 2017 comprising a total of 47,095 shares.

The voting rights attached to the ordinary shares are:

- at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

| 20 largest registered holders of shares | Number of Shares | % |
|--|--------------------|--------------|
| 1. J P Morgan Nominees Australia Limited | 183,405,156 | 24.71 |
| 2. Pacific Road Capital Management GP II Limited | 159,842,472 | 21.54 |
| 3. HSBC Custody Nominees <AUSTRALIA> Limited | 135,476,668 | 18.25 |
| 4. UBS Nominees Pty Ltd | 34,183,541 | 4.61 |
| 5. Citicorp Nominees Pty Limited | 33,102,287 | 4.46 |
| 6. Computershare Clearing Pty Ltd <CCNL DI A/C> | 24,383,177 | 3.29 |
| 7. Sandhurst Trustees Ltd <JMFG CONSOL A/C> | 22,827,676 | 3.08 |
| 8. Pacific Road Capital II Pty Limited | 22,372,358 | 3.01 |
| 9. Brispot Nominees Pty Ltd <HOUSE HEAD NOMINEE A/C> | 8,923,706 | 1.20 |
| 10. Watsons Bay Investments Pty Ltd | 6,220,000 | 0.84 |
| 11. CS Fourth Nominees Pty Limited <HSBC CUST NOM AU LTD 11 A/C> | 5,818,813 | 0.78 |
| 12. W K Super Pty Ltd <WOOLLEY KENCIAN S/F A/C> | 5,300,000 | 0.71 |
| 13. CS Third Nominees Pty Limited <HSBC CUST NOM AU LTD 13 A/C> | 5,206,047 | 0.70 |
| 14. Dr Janet Dawn Kencian | 4,410,000 | 0.59 |
| 15. Hampshire Assets and Services Pty Ltd | 4,000,000 | 0.54 |
| 16. National Nominees Limited | 3,476,049 | 0.47 |
| 17. BNP Paribas Noms Pty Ltd <DRP> | 3,272,044 | 0.44 |
| 18. HSBC Custody Nominees <AUSTRALIA> Limited-GSCO ECA | 2,904,243 | 0.39 |
| 19. TW Investments Pty Ltd | 2,581,000 | 0.35 |
| 20. Mr Oliver Winchester | 2,154,321 | 0.29 |
| | 669,859,558 | 90.25 |

Additional shareholder information

SUBSTANTIAL SHAREHOLDINGS

The substantial shareholders of the Company, and the number of securities in which those shareholders and their associates have a relevant interest, as disclosed in the substantial holding notices received by the Company are:

| Name | No. of Shares |
|---|---------------|
| Pacific Road Capital II Pty Ltd and Pacific Road Capital Management GP II Limited | 182,214,830 |
| Sustainable Capital Ltd | 112,050,380 |
| Taurus SM Holdings Pty Limited | 72,693,547 |
| Regal Funds Management Pty Limited | 58,824,936 |
| Aterra Capital | 43,140,420 |

OPTIONS

The following unlisted options are on issue. Options do not carry a right to vote. Voting rights will attach to any shares issued upon valid exercise of options.

| Stream | Date of Expiry | Exercise Price | Number of Options | Number of Holders |
|--------|------------------|----------------|-------------------|-------------------|
| 1 | 31 December 2018 | \$0.40 | 61,425,061 | 1 |
| | | | 61,425,061 | |

Holders of greater than 20% of any stream of options:

Stream 1: Taurus Funds Management Pty Ltd – 61,425,061 options.

PERFORMANCE RIGHTS

The following unlisted performance rights are on issue. Performance rights do not carry a right to vote. Voting rights will attach to any shares issued upon vesting of performance rights in accordance with their terms of issue pursuant to the Base Resources Long Term Incentive Plan.

| Cycle | Date of Vesting/Expiry | Number of performance rights | Number of Holders |
|-------|------------------------|------------------------------|-------------------|
| 2014 | 30 September 2017 | 10,030,672 | 17 |
| 2015 | 30 September 2018 | 45,233,105 | 17 |
| 2016 | 30 September 2019 | 11,306,517 | 19 |

OTHER INFORMATION

There is no current on-market buy back taking place. During the reporting period, no shares were purchased on-market for the purposes of an employee incentive scheme.







