BASE RESOURCES LIMITED

ABN 88 125 546 910

Interim Financial Report
For the six month period ended
31 December 2017

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APPENDIX 4D
RESULTS FOR ANNOUNCEMENT TO THE MARKET

Provided below are the Results for Announcement to the Market in accordance with Australian Securities Exchange (‘ASX’) Listing Rule 4.2A.3 and Appendix 4D for Base Resources Limited and its controlled entities for the half-year ended 31 December 2017 (the ‘reporting period’ or 'half-year') compared with the half-year ended 31 December 2016 (‘the comparative period').

Consolidated results	**Movement** **$000s**	**$000s**
Sales revenue	up $25,259 to	$115,905
Net profit/(loss) before tax	up $23,539 to	$27,371
Net profit/(loss) after tax attributable to members of Base Resources Limited	up $17,662 to	$21,494

Net tangible asset backing	**Unit**	**31 December 2017**	**31 December 2016**
Net tangible assets	$000s	$251,268	$227,568
Shares on issue	number	747,193,939	742,231,956
Net tangible asset per share	$/share	$0.34	$0.31

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

Dividends

No interim dividend has been declared.

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

None.

Independent auditor’s review report

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

Commentary

Commentary on the results for the reporting period is contained within the financial statements that accompany this announcement. It is recommended that the half-year report be read in conjunction with the Company’s Annual Financial Report for the year ended 30 June 2017 and any public announcements made by Base Resources during and after the half-year year ended 31 December 2017 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules.

CORPORATE DIRECTORY

DIRECTORS

Mr Keith Spence, Non-Executive Chairman
Mr Tim Carstens, Managing Director
Mr Colin Bwye, Executive Director
Mr Samuel Willis, Non-Executive Director
Mr Michael Anderson, Non-Executive Director – retired 31 August 2017
Mr Malcolm Macpherson, Non-Executive Director
Mr Michael Stirzaker, Non-Executive Director
Mrs Diane Radley (McCann), Non-Executive Director – appointed 1 February 2018

COMPANY SECRETARY

Mr Chadwick Poletti

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

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DIRECTORS REPORT

Your directors submit the interim financial report of the Group, being the Company, Base Resources Limited, and its controlled entities for the half-year ended 31 December 2017 (the **reporting period** or **half-year**) compared with the six-month period ended 31 December 2016 (the **comparative period**).

Directors

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

Mr Keith Spence

Mr Tim Carstens

Mr Colin Bwye

Mr Samuel Willis

Mr Michael Anderson – retired 31 August 2017

Mr Malcolm Macpherson

Mr Michael *Stirzaker*

Mrs Diane Radley (McCann) – appointed 1 February 2018

Directors have been in office since the start of the financial year to the date of this report, with the exception of Mr Michael Anderson who retired on 31 August 2017, and Mrs Diane Radley (McCann) who was appointed on 1 February 2018.

Company Secretary

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

Principal Activities and Significant Changes in Nature of Activities

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

Operating Results

The profit for the Group for the half-year after providing for income tax amounted to $21,494,021 (2016: $3,832,295).

Dividends Paid or Recommended

There were no dividends paid or declared for payment during the period ended 31 December 2017.

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, the staged increase in the Hydraulic Mining Unit (**HMU**) production progressed according to plan, with the HMU successfully increasing from 400 tonnes per hour (**tph**) to 800tph and resulting in increased HMU mining volume of 2.4 million tonnes compared with 1.4 million tonnes in the six months to 30 June 2017 (**prior period**) and 0.8 million tonnes in the comparative period. The increase in HMU capacity has commensurately reduced the demand on the existing Dozer Trap Mining Unit (**DMU**) with tonnes mined falling to 3.5 million compared with 4.2 million in the prior period and 4.6 million in the comparative period. Mined ore grade remained consistent with the prior period (7.6%) as mining proceeded around the north-western fringes of the Central Dune orebody and was higher than the comparative period (6.6%) as the HMU was initially implemented in lower grade blocks.

DIRECTORS REPORT

Mining and WCP Performance	Six months to Dec 2017	Six months to Jun 2017	Six months to Dec 2016
Ore mined (tonnes)	5,906,079	5,640,432	5,374,507
Heavy mineral (HM) %	7.61%	7.59%	6.56%
WCP Heavy mineral concentrate produced (tonnes)	435,305	391,953	316,451

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.

The increase in mining volume and improved ore grade resulted in production of HMC increasing to 435,305 tonnes, higher than the prior period's 391,953 tonnes and the comparative period's 316,451 tonnes. The HMC stockpile increased to 137,741 tonnes at 31 December 2017 (83,632 tonnes at 30 June 2017), due to the high HMC production and steady MSP throughput. Current HMC inventory is more than sufficient to ensure uninterrupted MSP feed during the final implementation of the Kwale Phase 2 (**KP2**) Project, where a one month shut of the WCP is scheduled in the March quarter to tie in plant modifications and equipment upgrades.

MSP Performance	Six months to Dec 2017	Six months to Jun 2017	Six months to Dec 2016
MSP feed (tonnes of heavy mineral concentrate)	381,297	379,246	384,925
MSP feed rate (tph)	91	91	92
MSP recovery % (i)			
Ilmenite	100%	101%	100%
Rutile	100%	99%	96%
Zircon	77%	73%	73%
Production (tonnes)			
Ilmenite	238,585	231,732	235,627
Rutile	45,587	45,869	44,756
Zircon	18,705	16,587	17,641
Zircon low grade	1,425	5,500	4,710

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

The MSP has continued to yield high throughput rates with an average of 91tph achieved for the reporting period (91tph in the prior period) and total MSP feed remaining steady at 381,297 tonnes (379,246 tonnes in the prior period).

Ilmenite production continued at above design capacity, achieving production of 238,585 tonnes (231,732 tonnes in the prior period), primarily due to slightly higher contained ilmenite in the MSP feed. This was partially offset by the lower average ilmenite recoveries of 100% (101% in the prior period).

Rutile production remained steady at 45,587 tonnes in the reporting period (45,869 tonnes in the prior period).

Zircon production increased to 18,705 tonnes for the reporting period (16,587 tonnes in the prior period) due to higher average zircon recoveries of 77% (73% in the prior period).

In addition to primary zircon, in July 2016, Kwale Operations commenced production of 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%. During the reporting period the zircon tails feed stockpile was fully depleted, and no further zircon low grade will be produced in the 2018 financial year.

With no serious injuries occurring during the reporting period, Kwale Operations lost time injury (**LTI**) frequency rate remains at zero. The Company's employees and contractors have now worked 11.0 million man-hours LTI free, with the last LTI recorded in February 2014.

Marketing and sales	**Six months to Dec 2017**	**Six months to Jun 2017**	**Six months to Dec 2016**
Sales (tonnes)			
Ilmenite	225,814	265,188	236,488
Rutile	37,971	49,195	42,796
Zircon	17,427	16,609	17,957
Zircon low grade	3,287	6,104	3,397

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.

In the reporting period, Base Resources sold more than 280,000 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.

Base Resources has maintained its strong market presence in China – the world's largest ilmenite market – with over 225,000 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 (**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 therefore a major driver of ilmenite and rutile pricing.

Global consumption of pigment has maintained a long-term average growth rate closely correlated to global GDP, at 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.

DIRECTORS REPORT

The global TiO_2 pigment industry remained buoyant through the reporting period. High plant utilisation rates and low inventory levels among the major western pigment producers have continued to support a strong pigment pricing environment. Chinese pigment prices stabilised following some volatility through the first half of the reporting period. Restrictions to Chinese pigment production, caused by government environmental inspections and a gas shortage, helped underpin pigment prices and off-set the impact of the usual seasonal slowdown in pigment demand through the northern hemisphere winter.

Chinese domestic ilmenite production has gradually increased through the reporting period following a sharp decrease in July and August on the back of central government environmental inspections. This has been offset by decreasing foreign ilmenite supply into China from Vietnam as export quotas from the Vietnamese government were exhausted and the ongoing ban on production and export of ilmenite from Tamil Nadu in India. As a result, the price of ilmenite sales to Chinese customers has been volatile throughout the reporting period, with prices softening towards the end of the period due to the restricted pigment production and seasonal slowdown.

The combination of increased Chinese production, a possible increase in Vietnamese ilmenite supply following granting of new export quotas, (although actual volume increase will be heavily dependent on the economic viability of mines) and the seasonally weak demand is restraining prices of ilmenite sales to China in the short term. Ilmenite demand for pigment production is expected to increase as the Chinese gas shortages ease and the seasonal demand picks up in the northern hemisphere spring.

A supply deficit in the high-grade feedstock sector (which includes rutile), driven mostly by the strength in the western chloride pigment sector, is resulting in continued upward price momentum. It is expected that this will translate into price gains as offtake contracts are renewed in 2018 for bulk rutile and chloride slag sales to large mainstream customers.

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, making it 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 factors have improved in line with the acceleration of global economic growth over the past two years resulting in steady demand growth for zircon. A significant draw down of inventories of zircon throughout the supply chain, along with constraints on global production, have resulted in a rapidly tightening market and sharp increases in zircon prices since 2016. Ongoing firm demand and restricted supply is expected to lead to further price improvement in zircon through the remainder of financial year 2018.

DIRECTORS REPORT

Review of Financial Performance

Base Resources recorded a profit after tax of $21.5 million for the six-month reporting period, compared with $3.8 million in the comparative period, primarily due to higher sales revenues.

	Six months to 31 December 2017			Six months to 31 December 2016		
	Kwale Operations	Other operations	Total	Kwale Operations	Other operations	Total
	$000s	$000s	$000s	$000s	$000s	$000s
Sales Revenue	**115,905**	**-**	**115,905**	**90,646**	**-**	**90,646**
Cost of goods sold excluding depreciation & amortisation:						
Operating costs	(35,502)	-	(35,502)	(32,500)	-	(32,500)
Changes in inventories of concentrate and finished product	6,340	-	6,340	(339)	-	(339)
Royalties expense	(7,995)	-	(7,995)	(6,165)	-	(6,165)
Total cost of goods sold [i]	**(37,157)**	**-**	**(37,157)**	**(39,004)**	**-**	**(39,004)**
Corporate & external affairs	(2,393)	(2,499)	(4,892)	(2,410)	(2,693)	(5,103)
Community development	(1,311)	-	(1,311)	(1,303)	-	(1,303)
Selling & distribution costs	(2,522)	-	(2,522)	(1,478)	-	(1,478)
Other income / (expenses)	(141)	(590)	(731)	325	(108)	217
EBITDA [i]	**72,381**	**(3,089)**	**69,292**	**46,776**	**(2,801)**	**43,975**
Depreciation & amortisation	(30,146)	(27)	(30,173)	(23,467)	(45)	(23,512)
EBIT [i]	**42,235**	**(3,116)**	**39,119**	**23,309**	**(2,846)**	**20,463**
Net financing expenses	(9,929)	(1,819)	(11,748)	(12,509)	(4,122)	(16,631)
Income tax expense	(5,877)	-	(5,877)	-	-	-
NPAT [i]	**26,429**	**(4,935)**	**21,494**	**10,800**	**(6,968)**	**3,832**

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

Sales revenue was $115.9 million for the reporting period (comparative period: $90.6 million), achieving an average price of product sold (rutile, ilmenite, zircon and zircon low grade) of $407 or US$317 per tonne ($302 or US$227 per tonne in the comparative period), with the main driver being the rising ilmenite and zircon prices. Total cost of goods sold, excluding depreciation and amortisation, was $37.2 million for the reporting period (comparative period: $39.0 million) at an average cost of $131 or US$102 per tonne of product sold ($130 or US$98 per tonne in the comparative period). Operating cost per tonne produced was higher at $117 or US$91 per tonne for the reporting period ($107 or US$81 per tonne in the comparative period), due to higher unit electricity costs and mobile equipment maintenance as the fleet ages.

With an achieved revenue to cost of sales ratio of 2.8 in the reporting period (2.3 in the comparative period), the Company remains well positioned in the upper quartile of mineral sands producers.

Improved commodity prices and a continued focus on cost management has delivered a Kwale Operations EBITDA for the reporting period of $72.4 million ($46.8 million in the comparative period) and a Group EBITDA of $69.3 million ($44.0 million in the comparative period).

Depreciation and amortisation has increased for the reporting period to $30.1 million ($23.5 million in the comparative period), due to a reduction in the Kwale Operations expected mine life following the approval of the Kwale Phase 2 project implementation, which will significantly increase future mining rates.

A net profit after tax of $26.4 million was recorded by Kwale Operations ($10.8 million in the comparative period) and $21.5 million for the Group ($3.8 million in the comparative period). Earnings per share for the Group was 2.89 cents per share (0.52 cents per share in the comparative period).

Cash flow from operations was $73.5 million for the reporting period ($45.1 million in the comparative period), slightly higher than Group EBITDA due to working capital movements.

In July 2017, following approval from the Kwale Operations Debt Facility (**Kwale Facility**) lenders to waive their entitlement to sweep 50% of the operations surplus cash in July 2017 (a '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 Debt Facility.

In October 2017, the Group established a US$25.0 million (subsequently increased to US$30 million) corporate Revolving Credit Facility (**RCF**) to provide the Group with additional funding flexibility. In accordance with the terms of the RCF, In December 2017, Base Resources utilised US$7.4 million of the RCF to repay the Kwale Facility lenders waived portion of the July 2017 cash sweep.

During the reporting period, US$28.3 million of the Kwale Operations Debt Facility (**Kwale Facility**) was paid down through a combination of scheduled repayments and supplementary repayments, from the proceeds of the RCF, reducing the outstanding Kwale Facility to US$112.8 million.

Total debt outstanding at 31 December 2017 was $154.1 million (US$120.3 million) reduced from $199.0 million at 30 June 2017 (US$153.0 million). The Company's net debt position at 31 December 2017 reduced to $84.1 million (US$65.6 million), from $128.2 million (US$98.5 million) at 30 June 2017. Net debt at 31 December excludes $15.5 million of restricted cash proceeds received prior to completion of the $100.0 million share offer announced on 19 December 2017 and held at period end.

After Balance Date Events

Subsequent to the end of the reporting period, in January 2018, in accordance with the terms of the Kwale Facility, a cash sweep of US$12.5 million was distributed from Kwale Operations. Half of the cash sweep (US$6.25 million) went towards mandatory repayment of the Kwale Facility, with the other half distributed to the parent entity, Base Resources. The outstanding Kwale Facility debt after this repayment was US$106.6 million (A$136.6 million). Total debt outstanding has been reduced to US$114.0 million (A$146.1 million).

Subsequent to the end of the reporting period, in January 2018, the Company completed the US$75 million acquisition of an initial 85% interest in the wholly owned Mauritian subsidiaries of World Titane Holdings Ltd (**World Titane**), which between them hold a 100% interest in the Toliara Sands Project in Madagascar (held through wholly owned subsidiaries in Madagascar). Base Resources will acquire the remaining 15% interest, with a further US$17.0 million payable on achievement of key milestones, as the project advances towards mine development. The acquisition was funded by the issue of 380,381,075 shares at a price of $0.255 per share, raising funds of $97.0 million, completed in January 2018.

DIRECTORS REPORT

Rounding

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

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 12 for the half-year ended 31 December 2017.

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

Keith Spence
Director
Dated this 22nd day of February 2018

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

To the Directors of Base Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2017 there have been:

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

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

KPMG.

KPMG

R Gambitta
Partner

Perth

22 February 2018

CONSOLIDATED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Note	6 months to 31 December 2017 $000s	6 months to 31 December 2016 $000s
Sales revenue		115,905	90,646
Cost of sales	2	(67,303)	(62,471)
Profit from operations		48,602	28,175
Corporate and external affairs		(4,919)	(5,148)
Community development costs		(1,311)	(1,303)
Selling and distribution costs		(2,522)	(1,478)
Other (expenses) / income		(731)	217
Profit before financing income and income tax		39,119	20,643
Financing costs	3	(11,748)	(16,631)
Profit before income tax		27,371	3,832
Income tax expense		(5,877)	-
Net profit after tax for the period		**21,494**	**3,832**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations		(3,208)	6,239
Total other comprehensive income for the period		(3,208)	6,239
Total comprehensive income for the period		**18,286**	**10,071**
Net Earnings per share		**Cents**	**Cents**
Basic earnings per share (cents per share)		2.89	0.52
Diluted earnings per share (cents per share)		2.69	0.48

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

CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31 December 2017 $000s	30 June 2017 $000s
Current assets			
Cash and cash equivalents		30,524	36,790
Restricted cash	4	55,024	34,042
Trade and other receivables	5	42,438	57,317
Inventories	6	33,959	24,090
Other current assets		6,480	5,891
Total current assets		**168,425**	**158,130**
Non-current assets			
Property, plant and equipment	7	320,931	334,634
Capitalised exploration and evaluation		2,780	2,652
Total non-current assets		**323,711**	**337,286**
Total assets		**492,136**	**495,416**
Current liabilities			
Trade and other payables	4	43,365	26,926
Borrowings	8	68,483	77,034
Provisions		1,759	1,696
Deferred revenue		1,068	1,084
Other liabilities		826	841
Total current liabilities		**115,501**	**107,581**
Non-current liabilities			
Borrowings	8	79,283	114,633
Provisions		28,752	28,907
Deferred tax liability		13,218	7,606
Deferred revenue		1,334	1,897
Total non-current liabilities		**122,587**	**153,043**
Total liabilities		**238,088**	**260,624**
Net assets		**254,048**	**234,792**
Equity			
Issued capital	9	225,992	225,298
Reserves		44,604	48,246
Accumulated losses		(16,548)	(38,752)
Total equity		**254,048**	**234,792**

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

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Issued capital	Accumulated losses	Share based payment reserve	Foreign currency translation reserve	Total
	$000s	$000s	$000s	$000s	$000s
Balance at 1 July 2016	223,548	(61,454)	6,775	48,005	216,874
Profit for the period	-	3,832	-	-	3,832
Other comprehensive income	-	-	-	6,239	6,239
Total comprehensive income for the period	-	3,832	-	6,239	10,071
Transactions with owners, recognised directly in equity					
Shares issued during the period, net of costs	1,750	-	-	-	1,750
Share based payments	-	1,671	(851)	-	820
Balance at 31 December 2016	**225,298**	**(55,951)**	**5,924**	**54,244**	**229,515**
Balance at 1 July 2017	225,298	(38,752)	6,757	41,489	234,792
Profit for the period	-	21,494	-	-	21,494
Other comprehensive income	-	-	-	(3,208)	(3,208)
Total comprehensive income for the period	-	21,494	-	(3,208)	18,286
Transactions with owners, recognised directly in equity					
Share based payments	694	710	(434)	-	970
Balance at 31 December 2017	**225,992**	**(16,548)**	**6,323**	**38,281**	**254,048**

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

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Note	6 months to 31 December 2017 $000s	6 months to 31 December 2016 $000s
Cash flows from operating activities			
Receipts from customers		128,269	91,447
Payments in the course of operations		(54,760)	(46,340)
Other		(54)	(28)
Net cash from operating activities		**73,455**	**45,079**
Cash flows from investing activities			
Purchase of property, plant and equipment		(21,733)	(2,849)
Other		332	(135)
Net cash used in investing activities		**(21,401)**	**(2,984)**
Cash flows from financing activities			
Proceeds from borrowings		9,608	-
Repayment of borrowings		(51,658)	(32,383)
Transfers (to) / from restricted cash		(6,014)	4,830
Payment of debt service costs		(9,489)	(11,205)
Net cash used in financing activities		**(57,553)**	**(38,758)**
Net (decrease) / increase in cash held		(5,499)	3,337
Cash at beginning of period		36,790	36,295
Effect of exchange fluctuations on cash held		(767)	801
Cash at end of period		**30,524**	**40,433**

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION

Reporting entity

Base Resources Limited is a company domiciled in Australia. The condensed consolidated interim financial statements of the Group for the six-months ended 31 December 2017 comprises the Company and its controlled entities (together referred to as the **Group**). The Group is a for-profit entity and primarily is involved in the operation of the Kwale Mineral Sands Mine (**Kwale Operations**) in Kenya.

Statement of compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the consolidated entity for the year ended 30 June 2017 and any public announcements made by Base Resources Limited during the interim financial reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated interim financial report was approved by the Board of Directors on 22 February 2018.

Basis of measurement

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

Functional and presentation currency

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

Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are consistent with those applied by the consolidated entity in its annual financial report for the year ended 30 June 2017.

Critical accounting estimates and judgements

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements for the year ended 30 June 2017.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 2: COST OF SALES

	6 months to 31 Dec 17 $000s	6 months to 31 Dec 16 $000s
Operating costs	35,502	32,500
Changes in inventories of concentrate and finished goods	(6,340)	339
Royalties expense	7,995	6,165
Depreciation and amortisation	30,146	23,467
	67,303	**62,471**

NOTE 3: FINANCING COSTS

	6 months to 31 Dec 17 $000s	6 months to 31 Dec 16 $000s
Interest expense, inclusive of withholding tax	7,446	10,229
Amortisation of capitalised borrowing costs	2,437	3,544
Financing expenses	1,834	1,576
(Gain) / loss on foreign exchange transactions	(8)	1,116
Unwinding of discount on provision for rehabilitation	275	282
Interest income	(236)	(116)
	11,748	**16,631**

NOTE 4: RESTRICTED CASH

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. As at 31 December 2017, the balance of the debt service reserve account was $39.5 million ($34.0 million at 30 June 2017).

In addition, in December 2017, $15.5 million of cash proceeds were received in advance of the issuance of share capital relating to the share offer announced on 19 December 2017. These funds were held in a restricted cash account at 31 December 2017, and until the shares were issued on 4 January 2018. A corresponding current liability was raised for $15.5 million, representing the obligation to issue shares in exchange for the funds received.

NOTE 5: TRADE AND OTHER RECEIVABLES

	31 Dec 17 $000s	30 Jun 17 $000s
Trade receivables	18,802	31,672
VAT receivables	23,560	25,574
Other receivables	76	71
	42,438	**57,317**

NOTE 6: INVENTORIES

	31 Dec 17	30 Jun 17
	$000s	$000s
Current		
Heavy mineral concentrate and other intermediate stockpiles – at cost	10,915	6,081
Finished goods stockpiles – at cost	10,190	4,460
Stores and consumables – at cost	12,854	13,549
	33,959	**24,090**

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

	Plant & equipment	Mine property and development	Buildings	Capital work in progress	Total
As at 31 December 2017	**$000s**	**$000s**	**$000s**	**$000s**	**$000s**
At cost	280,417	194,184	7,903	20,852	503,356
Accumulated depreciation	(110,735)	(69,007)	(2,683)	-	(182,425)
Closing carrying amount	**169,682**	**125,177**	**5,220**	**20,852**	**320,931**
Reconciliation of carrying amounts:					
Balance at 1 July 2017	188,222	139,078	5,908	1,426	334,634
Additions	782	138	3	20,810	21,733
Transfers	1,311	-	59	(1,370)	-
Disposals	(10)	-	(274)	-	(284)
Reduction in mine rehabilitation asset	-	(484)	-	-	(484)
Depreciation expense	(17,744)	(11,985)	(386)	-	(30,115)
Effects of movement in foreign exchange	(2,879)	(1,570)	(90)	(14)	(4,553)
Balance at 31 December 2017	**169,682**	**125,177**	**5,220**	**20,852**	**320,931**

As at 30 June 2017	**$000s**	**$000s**	**$000s**	**$000s**	**$000s**
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	205	2,445	-	922	3,572
Transfers	1,435	-	-	(1,435)	-
Reduction in mine rehabilitation asset	-	(651)	-	-	(651)
Depreciation expense	(14,717)	(9,449)	(317)	-	(24,483)
Effects of movement in foreign exchange	6,641	3,520	202	65	10,428
Balance at 31 December 2016	**215,294**	**155,542**	**6,633**	**1,701**	**379,170**

NOTE 8: BORROWINGS

	31 Dec 17 $000s	30 Jun 17 $000s
Current		
Kwale Facility (a)	68,155	61,798
Taurus Facility (b)	-	15,351
Capitalised borrowing costs (b)	-	(6,320)
Amortisation of capitalised borrowing costs (b)	-	5,721
Finance lease liabilities	328	484
Total current borrowings	**68,483**	**77,034**
Non-current		
Kwale Facility (a)	76,380	121,853
Revolving Credit Facility (c)	9,608	-
Capitalised borrowing costs (a)	(23,844)	(22,738)
Amortisation of capitalised borrowing costs (a)	17,139	15,433
Finance lease liabilities	-	85
Total non-current borrowings	**79,283**	**114,633**
Total borrowings	**147,766**	**191,667**

a. Kwale Facility

In November 2011, the Company entered into a debt facility for the development and construction of the Kwale Operation (**Kwale Facility**). During the six months to 31 December 2017, US$28.3 million was paid down, reducing outstanding debt to US$112.8 million (A$144.5 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 to BTL.

The Kwale Facility carry interest rates of LIBOR plus 630 basis points, inclusive of political risk insurance. The weighted average effective interest rate on the facilities at 31 December 2017 is 8.06% (30 June 2017: 7.72%), with the difference due to the LIBOR rate. The remaining tenor of the loan is 2.5 years.

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

Subsequent to period end, in January 2018, in accordance with the terms of the Kwale Facility, surplus cash of US$12.5 million was distributed from Kwale Operations (a 'cash sweep'). Half of the cash sweep (US$6.25 million) went towards mandatory repayment of the Kwale Facility, with the other half distributed to the parent entity, Base Resources. The outstanding debt after this repayment was US$106.6 million (A$136.6 million).

b. Taurus Facility

In July 2017, following approval from the Kwale Facility lenders to waive their entitlement to 50% of a 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 Debt Facility.

c. Revolving Credit Facility

In October 2017, the Group established a US$25.0 million Revolving Credit Facility (**RCF**) to provide the Group with additional funding flexibility. Both Base Resources and Base Titanium are eligible borrowers under the RCF and the RCF benefits from the same security package as the Kwale Facility. In December 2017, Base Resources utilised US$7.4 million of RCF to repay Kwale Facility lenders waived portion of the July 2017 cash sweep.

The RCF carries an interest rate of LIBOR plus 620 basis points, inclusive of political risk insurance. The weighted average effective interest rate on the RCF at 31 December 2017 is 8.03%. The remaining tenor of the loan is 2.5 years. Subsequent to period end, the RCF was increased to US$30.0 million.

NOTE 9: ISSUED CAPITAL

	31 Dec 17	**30 Jun 17**
	$000s	**$000s**
Ordinary share capital:		
Issued and fully paid	**225,992**	**225,298**

Date	**Number**	**$000s**
1 July 2016	732,231,956	223,548
Shares issued as consideration for Taurus Facility extension (note 8)	10,000,000	1,750
30 June 2017	**742,231,956**	**225,298**
1 July 2017	**742,231,956**	**225,298**
Performance rights vested under the Company's LTIP	4,961,983	694
31 December 2017	**747,193,939**	**225,992**

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

NOTE 10: SEGMENT REPORTING

Identification of reportable segments

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

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

	6 months to December 2017			6 months to December 2016		
Reportable segment	**Kwale Operations**	**Other operations**	**Total**	**Kwale Operations**	**Other operations**	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s
Sales revenue	115,905	-	115,905	90,646	-	90,646
Depreciation and amortisation	(30,146)	(27)	(30,174)	(23,467)	(45)	(23,512)
Financing costs	(9,929)	(1,819)	(11,748)	(12,509)	(4,122)	(16,631)
Reportable profit after tax	26,429	(4,935)	21,494	10,800	(6,968)	3,832
Capital Expenditure	21,733	169	21,902	2,849	415	3,264
	As at 31 December 2017			**As at 30 June 2017**		
Total assets	473,588	18,548	492,136	490,178	5,238	495,416
Total liabilities	214,125	23,963	238,088	244,706	15,918	260,624

NOTE 11: SHARE BASED PAYMENTS

Performance rights

In November 2017, Base granted 14,226,713 performance rights to key management personnel and other senior staff under the Group's long term incentive plan (**LTIP**). The LTIP operates on a series of annual cycles. Each cycle commences on 1 October and is followed by a three-year performance period, with a test date on the third anniversary of the commencement of the cycle. The performance rights granted in November 2017, for the cycle commencing on 1 October 2017, have performance conditions consistent with those issued under previous LTIP cycles and vest on 30 September 2020. The fair value of each performance right granted in November 2017 is $0.22.

The 10,033,473 performance rights granted under the LTIP cycle commencing 1 October 2014 completed their three-year performance period on 30 September 2017. Base Resources' absolute Total Shareholder Return (**TSR**) over the performance period was less than 40.5%, which resulted in no Absolute TSR performance rights vesting. Base Resources' relative TSR over the performance period placed it in the 74th percentile which resulted in 4,961,983 rights vesting.

NOTE 12: EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the end of the reporting period, in January 2018, in accordance with the terms of the Kwale Facility, a cash sweep of US$12.5 million was distributed from Kwale Operations. Half of the cash sweep (US$6.25 million) went towards mandatory repayment of the Kwale Facility, with the other half distributed to the parent entity, Base Resources. The outstanding Kwale Facility debt after this repayment was US$106.6 million (A$136.6 million).

Subsequent to the end of the reporting period, in January 2018, the Company completed the US$75 million acquisition of an initial 85% interest in the wholly owned Mauritian subsidiaries of World Titane Holdings Ltd (**World Titane**), which between them hold a 100% interest in the Toliara Sands Project in Madagascar (held through wholly owned subsidiaries in Madagascar). Base Resources will acquire the remaining 15% interest, with a further US$17.0 million payable on achievement of key milestones, as the project advances towards mine development. The acquisition was funded by the issue of 380,381,075 shares at a price of $0.255 per share, raising funds of $97.0 million, completed in January 2018.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The interim financial statements and notes, as set out on pages 13 to 23, are in accordance with the Corporations Act 2001 including:
    a. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the six month period ended on that date; and
    b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. In the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

Keith Spence
Director
Dated this 22nd day of February 2018

Independent Auditor's Review Report

To the shareholders of Base Resources Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Base Resources Limited.

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

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated condensed statement of financial position as at 31 December 2017
- Consolidated condensed statement of profit or loss and other comprehensive income, Consolidated condensed statement of changes in equity and Consolidated condensed statement of cash flows for the half-year ended on that date
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Base Resources Limited and the entities it controlled at the half year's end or from time to time during the half year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group’s financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Base Resources Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

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KPMG.

KPMG

R Gambitta
Partner

Perth

22 February 2018