

MZI implements 5.25Mtpa Keysbrook Operating Plan

- Higher throughput Operating Plan implemented following detailed review
- Systematic modifications to achieve annualised rate of 5.25Mtpa
- Targeted to deliver circa 50% increase in saleable production and 25-30% reduction in unit cash costs in FY2018 compared with FY2017
- Forecasts positive operating surplus in FY2018 and sustainable operating cashflows, comparable with original financial projections, from Q4 FY2018
- Staged capital expenditure of approximately \$5 million, initially funded by a US\$5 million increase to existing working capital facility, offered by Resource Capital Fund VI LP
- Plan underpins financial restructuring program targeted for completion in early 2018

MZI Resources Ltd (ASX: MZI) is pleased to announce it has implemented a higher throughput Operating Plan for the Keysbrook Project to deliver reduced unit cash operating costs and sustainable positive operating cashflow in FY2018.

The plan, approved by the MZI Board, is the result of detailed optimisation and independent reviews undertaken since April 2017 in support of the Company's financial restructuring program targeted for completion in early 2018.

The Plan incorporates actual operating data generated since the start of operations at Keysbrook in late 2015. It also takes into account the greater than originally anticipated complexity and underlying costs associated with commissioning, debottlenecking and operating the Keysbrook Project. These factors have to date prevented the Project from achieving its targeted operational and financial performance, necessitating a review and optimisation of the Operating Plan.

This has identified a number of changes, including increasing ore throughput to an annualised rate of 5.25Mtpa, and associated incremental low-capex modifications to the Keysbrook flowsheet.

These changes are anticipated to increase saleable production by over 50% in FY2018 compared with FY2017 figures and reduce unit cash operating costs by approximately 25-30%.

Based on current product pricing and outlook, the Plan is forecast to deliver a moderate gross operating surplus for the current Financial Year. Once implemented, the changes are expected to deliver consistent and sustainable annual operating cashflows comparable with the original financial projections for the Project.

FY2018 Guidance

The Board has reviewed and approved the implementation of the 5.25Mtpa Operating Plan which is expected to deliver significantly improved operational and financial performance compared with FY2017.

Consequently, the Company provides the following operational and cost guidance range for FY2018, in accordance with the Plan's operational objectives:

		FY18	Q4 FY18	FY17 Actual
Mining/MFU feed (annualised)	Mdtpa	4.9	5.25	4.0
Mined Grade	%HM	2.9	2.7	2.67
HMC Produced	kdt	120-130	30-33	93
HMC grade	%HM	84	85	79.7
HMC Recovery	%	76	79	69.3
Saleable products	kdt	95-97	27-29	62
C1 unit cash operating costs	\$/dt	470-485	385-400	668^
Total (all-in) unit cash operating costs*	\$/dt	680-695	550-565	1040^
Average Realised Price (all products)	A\$/dt sold	700-715	735-750	635

*Total cash costs include C1 costs, interest, royalties, inventory movement, leases, MZI corporate costs and financing fees.

^FY2017 costs are unaudited

Guidance for FY2018 represents average outcomes for the year.

Guidance for Q4 FY2018 is included as it is anticipated to be more representative of the "steady state" performance targeted by the Plan.

Projected average unit cash operating costs for FY2018 reflect higher expected costs in the current half, reducing in the second half as the operational changes are completed.

The increase in production will also be weighted to the second half of the year, accounting for approximately 60-65% of planned total production for the year.

Consequently, unit cash costs for Q4 FY2018 are anticipated to be approximately 15-20% lower than the full year average

Project Performance to Date

As previously reported, since commissioning commenced in October 2015, the Keysbrook Project has not maintained targeted performance on a sustainable basis.

This has reflected the following key issues:

- Reliability and maintenance issues with original Mine Feed Unit (MFU), restricting Wet Concentrator Plant (WCP) throughput
- Cost/delays of transition from the original MFU to improved MFU2 from January to March 2017
- Increased lease equipment requirements prior to commissioning of MFU2
- WCP bottlenecks, notably with regard to spiral capacity and configuration, and variable WCP recoveries
- Variable Mineral Separation Plant (MSP) recoveries and reliability
- Higher than planned costs associated with noise management, including the need to implement advanced, adaptive management systems and controls over a wide area

As reported, the Company has undertaken a number of measures to progressively address these issues including:

- Replacement of original MFU with highly reliable, more efficient MFU2
- Resumption of 24/7 mining operations following move to eastern mining location
- Updated life of mine plan giving better and more detailed understanding of feed handling requirements and material variations
- Upgraded screening and spiral equipment in WCP and upgraded screening equipment at MSP
- Enhanced adaptive noise/environmental management processes, including increased personnel, advanced monitoring equipment and systems, sound cladding for plant and equipment, responsive mining/operational practices

These measures have significantly improved operational performance, notably since early 2017. However, given the higher than originally anticipated underlying costs associated with operating at Keysbrook, where fixed costs represent approximately 70% of total operating costs, the operational review has confirmed that changes envisaged under the higher throughput operating plan are necessary for the Project to achieve the desired operating cashflows on a sustainable basis.

Operating Plan

The 5.25Mtpa Operating Plan involves the following key metrics and outcomes:

- Increase in annual mine ore production/MFU feed to 5.25Mtpa, compared with original plan of 4.5Mtpa.
- Trommel installation ahead of the WCP to pre-screen and clean slurry before entering the WCP, to further improve WCP throughput and HM recovery
- Addition of drying/filtering capacity to reduce HMC moisture content and improve MSP throughput and recovery.
- Increased pumping and process water storage capacity
- Upgraded L70 screens at MSP
- Lift in production of saleable products to annualised rate of approximately 110,000 to 120,000 tpa, compared with original design of 96,000tpa and 62,000t achieved in FY2017
- Annualised ore production/MFU feed rate to reach 5.25Mtpa in March quarter of FY2018
- No further approvals required

The minor additional modifications and associated capital works are expected to cost in the order of \$5 million, and are expected to be complete and fully operational during the March 2018 quarter.

Refinancing and Balance Sheet Restructuring

As indicated, the 5.25Mtpa Operating Plan has been developed in support of the Company's planned financial restructuring initiative, being overseen by MZI's corporate financial advisers Northcott Capital in collaboration with the Company's major shareholder and financier Resource Capital Fund VI LP ("RCF") and the Company's Senior Debt provider RMB Australia Holdings Limited ("RMB").

This initiative is intended to deliver a more robust, transparent, simple and cost-effective financial and capital structure for the Company to better capitalise on the long term value opportunity presented by the Keysbrook Project and the continued strengthening of the global mineral sands market.

Given the compelling benefits identified in the 5.25Mtpa Operating Plan, RCF has offered to provide an additional US\$5 million in working capital by increasing its existing working capital facility. This additional funding will enable MZI to proceed immediately with implementing the Operating Plan including the associated capital expenditure.

This funding is subject to the Company securing a waiver of Listing Rule 10.1 from the ASX. It will be combined with, and be on similar terms and conditions to the existing working capital facility provided by RCF, noting that the parties are in discussions about extending the maturity of the additional working capital facility. (Refer to ASX releases on 29 November 2016, 29 May 2017 and 8 June 2017).

It will also provide a bridge to the planned completion in early 2018 of MZI's financial restructuring initiative. Further details of this initiative will be provided as they progress.

Comment

MZI Managing Director, Martin Purvis said *"Implementation of the 5.25Mtpa Operating Plan represents an important step toward achieving the desired turnaround of both Keysbrook and MZI."*

"As the last two years have showed, it has been a far more complex challenge to get Keysbrook performing to the required level than was envisaged when operations commenced in 2015."

"Much of the heavy lifting to resolve many unforeseen challenges and difficulties has been done and the lessons learnt have been instrumental in constructing the new plan within a heightened level of confidence."

"The plan provides us with a clear, systematic and realistic pathway to capitalise on the improvements already achieved in 2017 and deliver robust cashflows and attractive earnings on a sustainable basis despite higher underlying costs of operating at Keysbrook."

"Significantly, we believe this plan will also provide additional opportunities to extract additional operating and financial benefits over time."

"We thank RCF for their continuing support and vote of confidence in Keysbrook by providing the short-term funds to allow us to move quickly and capture the benefits from this program at the earliest possible time. Importantly, market conditions for our products continue to strengthen, providing additional potential upside as we pursue our objectives."



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About MZI

MZI Resources Ltd (ASX: MZI) is a mineral sands company focused on the high value minerals of zircon, rutile and leucoxene based in Perth, Western Australia. Its flagship operating asset is the Keysbrook Mineral Sands Project, located 70km south of Perth. At the Keysbrook mine, mineral sands are mined and processed to produce heavy mineral concentrate (HMC) which is processed into final products under a toll treating arrangement with Doral Mineral Sands Pty Ltd at the Picton Mineral Separation Plant (MSP) near Bunbury. The Keysbrook mine hosts a world-class zircon / leucoxene ore body with total Ore Reserves equivalent to over 15 years of mine life and total Mineral Resources equivalent to over 30 years of production. Production commenced in late 2015, making the Keysbrook Project Australia's first – and the world's largest - primary producer of high value leucoxene.

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