

Our Reference: 00148392

28 September 2017

Company Announcements Office
ASX Limited
Level 40, Central Park
152-158 St Georges Terrace
PERTH WA 6000

Dear Sirs

Chairman's Letter to Shareholders and 2017 Annual Financial Report

Please find attached the following documents to be sent to shareholders:

- a) the MZI Resources Ltd (the Company) 2017 Annual Financial Report; and
- b) Chairman's Letter to Shareholders.

The abovementioned documents will be available on the Company's website
www.mzi.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read "John Traicos".

John Traicos
Company Secretary

Chairman's Letter to Shareholders

28 September 2017

Dear Shareholder

I would like to take this opportunity on behalf of the Board of MZI Resources Ltd, to discuss our Company's performance, its progress toward achieving the operational and financial targets we all expect and the outlook for MZI and Keysbrook as a long life producer of high value mineral sands products in a strengthening global market.

Clearly, the past two years since we commissioned the Keysbrook Operations have been extremely challenging, far more so than was ever envisaged at the outset of the development. Commissioning and ramp-up difficulties are not uncommon to new resources projects, however the cost to the Company, both financially and on equity markets, has been disappointing as reflected in the results reported by the Company for the 2016/17 financial year and in our current share price.

The Company has faced a number of challenges which have been well documented in recent ASX releases including significant equipment performance and reliability issues which have impacted production together with additional costs associated with exploiting the more complex than envisaged Keysbrook orebody in a sustainable manner.

Nonetheless, the past two years have endowed the Company with invaluable operating experience for the future. Furthermore the important lessons learned in that period, combined with the significant operational changes made since late 2016, in particular the recently implemented 5.25Mtpa higher throughput operating plan and our proposed financial restructuring, provide us with a firm foundation to realise the substantial resource potential at Keysbrook.

We have entered the 2017/2018 financial year with a clear sense of direction and purpose with this new 5.25Mtpa operating plan that has been developed after an intensive and thorough review process. We believe our new plan will deliver a step change in performance that will generate a modest operating surplus in the current financial year, and robust sustainable cash flows from the June quarter of next year. To demonstrate our faith in this plan, we have in a recent ASX release (18 September 2017) given clear guidance as to what we expect will be the measurable outcomes.

Our new operating strategy provides critical support to our planned financial restructure designed to produce a simpler and more transparent balance sheet and capital structure more suited to MZI as a long life producer of high value mineral sands products. The proposed restructure which is scheduled to be completed early in 2018 will touch on all aspects of our existing financial structure, and notably will seek to replace our current short term and long term debt facilities with a more cost effective, longer term alternative. We are grateful that our major shareholder Resource Capital Fund VI LP (RCF) and our senior debt provider RMB Australia Holdings Limited have remained steadfast supporters of our business.

Importantly for the Company, there have been clear signs in recent months of a more positive outlook for the market in which we operate. After several years of depressed pricing and excess supply, demand is once again rising steadily at a time in which many established production sources are on the wane and few new sources of supply are ready to take up the slack. Such market developments obviously have a positive impact for MZI as we implement the changes noted above, and consolidate our position as a producer of high quality leucoxene products and zircon concentrate.

Accordingly, we have renewed optimism and confidence in the future of the Keysbrook Operations, and believe that our MZI team, led by new Managing Director Martin Purvis, is well placed to deliver the results expected by our shareholders.

On that note, I thank all our shareholders for their continuing support of MZI and look forward to reporting a successful performance for the coming year.

Yours sincerely



Rod Baxter
Chairman
MZI Resources Ltd
+61 8 9328 9800



mzi
resources

and its controlled entities

ABN 52 077 221 722

ANNUAL FINANCIAL REPORT
For the year ended 30 June 2017

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1 Corporate Directory

1.1 Board of Directors

Rodney Baxter	Independent Non-Executive Chairman
Stephen Ward	Independent Non-Executive Director
	Interim Managing Director and Chief Executive Officer
Chi To (Nathan) Wong	Non-Independent Non-Executive Director
Maree Arnason	Independent Non-Executive Director
Ronald Beevor	Non-Independent Non-Executive Director
Martin Purvis	Managing Director

1.2 Company Secretary

John Traicos

1.3 Registered Office

Level 2, 100 Royal Street
East Perth, Western Australia 6004

Postal Address

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East Perth, Western Australia 6892

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1.4 Share Registry

Computershare Investor Services Pty Ltd

Level 11, 172 St Georges Terrace

Perth, Western Australia 6000

Telephone: +61 8 9323 2000

Website: www.computershare.com.au

1.5 Auditors

PricewaterhouseCoopers

1.6 Securities Exchange Listings

Shares in MZI Resources Ltd are quoted on the Australian Securities Exchange under trading code MZI.

MZI Resources is also listed on the Frankfurt Stock Exchange under trading code AU000000MZI8.

2 Directors' Report

The Directors present their report on the Consolidated Entity comprising MZI Resources Ltd (the "Company" or "MZI") and its controlled entities ("the Group") for the financial year ended 30 June 2017.

2.1 Directors and Company Secretary

The names and particulars of the Directors and Company Secretary in office during or since the end of the financial year are;

Rodney Baxter	
Independent Non-Executive Chairman	Mr Baxter was an Independent Non-Executive Director for whole of the financial year. Mr Baxter was appointed Non-Executive Chairman of the Company on 22 August 2016.
Qualifications:	B. Sc. (Hons.), PhD, MBA, MAICD
Experience:	Mr Baxter has 25 years operational and executive leadership experience in the resources and engineering services sectors. He was most recently the Managing Director of engineering, asset management and construction services company, Calibre Group.
Interest in Shares and Options at the date of this report:	75,000 ordinary shares 300,000 unlisted options (\$0.65, 1 December 2019)
Special responsibilities:	Member of the Audit and Risk Committee. Chair of the Nomination and Remuneration Committee from 28 September 2016 Member of the Sustainability Committee from 28 September 2016.
Directorships held in other listed entities in the last three years:	None
Stephen Ward	
Independent Non-Executive Director	Dr Ward was an Independent Non-Executive Director up to 7 November 2016. At the Board's request, he then served as Interim Managing Director and Chief Executive Officer from 7 November 2016 until 7 July 2017 at which time he resumed his position as a Non-Executive Director.
Interim Managing Director and Chief Executive Officer	
Qualifications:	B. Sci. (Hons Chemistry), PhD Physical Chemistry, GAICD.
Experience:	Dr Ward has over 30 years' industry experience working globally in minerals sands and related products in a variety of Board, business leadership and senior executive roles. He has an extensive mining, mineral processing and sales and marketing background.
Interest in Shares and Options at the date of this report:	215,000 ordinary shares 300,000 unlisted options (\$0.65, 1 December 2019)
Special responsibilities:	Member of the Nomination Committee and Chair of the Remuneration Committee until 28 September 2016 Chair of the Audit & Risk Committee from 28 September 2016 to 7 November 2016 Member of Sustainability Committee from 28 September 2016 to 7 November 2016.
Directorships held in other listed entities in the last three years:	None

Maree Arnason

Independent Non-Executive Director	Ms Arnason was an Independent Non-Executive Director for the whole of the financial year. During the financial year, at the request of the Board, Ms Arnason provided advisory services to the Company in relation to Company regulatory and compliance matters.
Qualifications:	B. Arts, GAICD
Experience:	Ms Arnason is an experienced director and senior executive whose career has spanned 30 years in the resources, energy and manufacturing sectors and has significant leadership expertise working in complex corporate and project environments with a focus on risk and reputation. She is a CEDA WA State Advisory Council member; a Co-Founder/Director of Energy Access Services, which operates an energy trading platform for the WA domestic gas market; a past National Director of the Australian China Business Council and a serving member of their WA Executive Committee.
Interest in Shares and Options at the date of this report:	125,000 ordinary shares 300,000 unlisted options (\$0.65, 1 December 2019)
Special responsibilities:	Chair of the Sustainability Committee from 28 September 2016. Member of the Nomination and Remuneration Committee and the Audit and Risk Committee. During the financial year, at the request of the Board, Ms Arnason provided advisory services to the Company in relation to Company regulatory and compliance matters.
Directorships held in other listed entities in the last three years:	Current Non-Executive Director of Sandfire Resources NL.

Chi To (Nathan) Wong

Non-Independent Non-Executive Director	Mr Wong was a Non-Independent Non-Executive Director for the whole of the financial year.
Qualifications:	B. Eng. (First Class Honours), M Sci.
Experience:	Mr Wong has extensive experience in the mineral sands value chain in China at both a technical and commercial level. He is a Director of Tricoastal Minerals (Holdings) Company Limited which manages one of the world's largest mineral separation capacities together with a comprehensive sales and marketing network throughout China. He brings additional depth of processing and marketing expertise to the Board.
Interest in Shares and Options at the date of this report:	2,870,602 ordinary shares 300,000 unlisted options (\$0.65, 1 December 2019)
Directorships held in other listed entities in the last three years:	None

Ronald Beevor

Non-Independent Non-Executive Director	Mr Beevor was a Non-Independent Non-Executive Director for the whole of the financial year.
Qualifications:	B.A. (Hons)
Experience:	Mr Beevor has extensive experience in financial markets at an executive and director level. Previous roles included Managing Director and Head of Investment Banking with NM Rothschild Australia, and a number of non-executive director appointments. He brings strong corporate, resource financing and development expertise to the Board.
Interest in Shares and Options at the date of this report:	300,024 ordinary shares
Special Responsibilities:	Member of the Audit and Risk Committee and Chair of the Audit and Risk Committee from 7 November 2017. Member of Nomination and Remuneration Committee from 28 September 2016.
Directorships held in other listed entities in the last three years:	Current Chairman of Bannerman Resources Limited and Non-Executive Director of Wolf Minerals Ltd. Director of Unity Mining Limited (resigned 18 November 2015) and EMED Mining Public Limited (resigned 24 December 2014).

Trevor Matthews

Managing Director	Mr Matthews held the position of Managing Director until his resignation on 7 November 2016.
Qualifications:	B. Com., Dip. Applied Finance and Investment, MAICD
Experience:	Mr Matthews has 30 years' experience in the resources industry and has held executive positions with a number of listed entities in both operational and corporate roles including Managing Director and Executive Director. Mr Matthews has experience in various commodities and operations including iron ore, silicon metal, copper, gold, nickel and cobalt and significant experience in greenfields project development, operational management, finance and corporate governance.
Interest in Shares and Options at the date of resignation:	1,126,414 ordinary shares
Special responsibilities:	Member of the Nomination Committee until 28 September 2016.
Directorships held in other listed entities in the last three years:	None

Malcolm Randall

Independent Non-Executive Chairman	Mr Malcolm Randall resigned as an Independent Non-Executive Chairman on 22 August 2016 and continued as an Independent Non-Executive Director until his resignation as a Non-Executive Director on 22 November 2016.
Independent Non-Executive Director	Mr Randall provided consulting services to the Company from mid December 2016 to 30 June 2017.
Qualifications:	Dip. Applied Chem., FAICD
Experience:	Mr Randall is an experienced company Director and Chairman with extensive experience in corporate management and marketing in the resources sector, including more than 20 years with the Rio Tinto group of companies. His experience extends over a broad range of commodities including iron ore, diamonds, base metals, coal, uranium and industrial minerals both in Australia and internationally.
Interest in Shares and Options at the date of resignation:	625,000 ordinary shares
Special responsibilities:	Member of the Remuneration Committee and Audit and Risk Committee.
Directorships held in other listed entities in the last three years:	Non-Executive Director of Thundelarra Exploration Ltd, Magnetite Mines Ltd and Summit Resources Ltd. Chairman of Kalium Lakes Ltd. Director of Iron Ore Holdings Limited (resigned 21 November 2014).

Martin Purvis

Managing Director	Mr Purvis was announced as Managing Director on 3 May 2017 and commenced duties on 1 July 2017.
Qualifications:	BSc Mining Engineering, Mining, GAICD
Experience:	Mr Purvis is a mining engineer and graduate of the Australian Institute of Company Directors with over 30 years' experience in the resource sector. His career started in South Africa and since that time he has been engaged in a variety of corporate and operational roles at Executive and Board level. Mr Purvis has worked with a broad range of commodities, cultures and organisations including publicly listed and private entities around the globe.
Interest in Shares and Options at the date of this report:	Nil
Special responsibilities:	
Directorships held in other listed entities in the last three years:	Executive Director of Troy Resources Limited (Resigned 2 May 2017)

2.2 Directors' Meetings

The number of meetings of the Directors (including meetings of committees of Directors) held while a Director or a member of a sub-committee and attended by each Director during the year were as follows:

	Board		Remuneration Committee		Nomination and Remuneration Committee (iv)		Audit and Risk Committee		Sustainability Committee (v)	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
R Baxter	19	19	-	-	11	11	4	4	7	6
S Ward	19	19	1	1	-	-	1	1	2	2
CT Wong	19	19	-	-	-	-	-	-	-	-
M Arnason	19	19	1	1	11	11	4	4	7	7
R Beevor	19	19	-	-	11	8	3	3	-	-
T Matthews (i)	6	5	-	-	-	-	-	-	-	-
M Randall (ii)	7	7	1	1	2	-	1	1	-	-
M Purvis (iii)	-	-	-	-	-	-	-	-	-	-

(i) Mr Matthews resigned from the Board of Directors on 7 November 2016 and attended all Board meetings up to that date.

(ii) Mr Randall resigned from the Board of Directors on 22 November 2016 and attended all Board meetings up to that date.

(iii) Mr Purvis commenced duties as Managing Director on 1 July 2017.

(iv) The Remuneration Committee and the Nomination Committee were merged effective 28 September 2016.

(v) The Sustainability Committee was established on 28 September 2016.

The details of the functions of the committees of the Board of Directors are presented in the Corporate Governance Statement.

3 Principal Activities and Significant Changes in State of Affairs

The principal activity of the Group during the financial year was the operation of the 100% owned Keysbrook Mineral Sands Project.

4 Operating and Financial Review

4.1 Operating Result

The consolidated net loss for the financial year ended 30 June 2017 applicable to owners of the Parent after income tax was \$31,408,000 (2016: \$28,554,000*).

* refer to Note 18

4.2 Review of Operations

Keysbrook

The year ended 30 June 2017 represents the first full financial year of operations for the Keysbrook Project with production continuing to ramp up during the period after the completion of construction in the first half of the prior year. Availability of key equipment and recovery of heavy minerals (HM) in the wet concentrator plant (WCP) continued to improve during the period. A major transformation of the business occurred during the second half of the year ended 30 June 2017. This involved a successful optimisation project for the WCP and the relocation to a new eastern mining area combined with the introduction of an improved and more reliable mine feed unit (MFU). The improved operating performance in a period of transition from construction and commissioning enabled significantly increased production levels of both heavy mineral concentrate (HMC) and final saleable product, with the following production outcomes being achieved for the year:

- ▶ full year HMC production of 93,118dt at the Keysbrook WCP
- ▶ full year saleable production of 62,255dt (all products)

The table below provides further detail of the key physical statistics from the Keysbrook operations for the year ended 30 June 2017 compared to the prior year.

Production	Units	30 Jun 2017	30 Jun 2016
Ore Mined	dt	3,967,154	2,522,311
Ore Processed	dt	3,620,656	2,385,321
Mined Grade	%HM	2.68	2.61
HMC Production (WCP)	dt	93,118	58,289
HMC Processed (MSP)	dt	89,765	53,206
L70 Produced	dt	16,952	12,140
L88 Produced	dt	29,802	10,297
Zircon Concentrate Produced	dt	15,501	9,663
Total Products	dt	62,255	32,100
Sales			
L70	dt	17,126	13,057
L88	dt	29,538	8,250
Zircon Concentrate	dt	15,809	9,314
Total Sales	dt	62,473	30,621

Mining volumes at Keysbrook increased substantially compared to the prior year, rising 57% to 3.97Mt. Mining activity returned to a 24-hour production basis early in February in conjunction with the commencement of operations in the new eastern mining location. Mined grade for the year was 2.68% heavy mineral content compared with 2.61% in the previous year.

The MFU originally constructed and installed as part of the project works suffered significant performance and reliability issues during the year. It was replaced in February 2017 with a more robust unit (MFU2) being installed in the new eastern mining location. The original MFU has been decommissioned and was the subject of a significant contract works insurance claim which was successfully concluded during the financial year.

MFU2 demonstrated outstanding reliability in the final quarter of the year, with throughput increasing by 14% on the prior quarter. The increased operational efficiency and reduced maintenance downtime is anticipated to deliver significantly improved operating costs and production volume over time. The presentation of consistent feed from the more reliable MFU2 to the WCP is a key platform of the Company's continuous improvement program, underpinning improved HMC production and increased saleable production from the Picton MSP.

At the WCP recoveries of HM improved significantly from 57% to 69% assisted by the successful completion of the WCP Optimisation Project in late November which included the installation of 48 large capacity spirals and uprated screening equipment.

During the final quarter of the financial year, plant performance was temporarily impacted by high concentrations of fine root matter in ore mined from an area that historically had tree cover. Mining was largely completed in the root affected area during June. Full year HMC production reached 93,118dt, a 60% increase over the prior year.

At Picton, MSP performance improved compared to the prior year with 89,765dt of HMC processed for the period, a 69% increase compared to the prior year. Increased technical focus on the MSP occurred during the period in order to optimise both throughput capacities and product separation to deal with variations in the HMC feedstock composition.

Total saleable production for the year was 62,255dt, and comprised 29,802 dt of L88, 16,952dt of L70 and 15,501dt of zircon concentrate.

Sales

The continued ramp up from early stage production achieved in the prior year was reflected in record final quarter product sales of 23,361dt. Full year sales totalled 62,473dt, comprising 29,538dt of L88, 17,126t of L70, and 15,809dt of zircon concentrate, for total attributable full year sales revenue of \$39.6m and cash receipts of \$51.1m.

In April 2017, the Group announced an extension of the offtake arrangements with Chemours which adds an additional 50,000 tonnes of L88 to sales offtake volumes for a 3 year period commencing March 2017.

As part of the strategy to diversify product sales and markets an initial bulk sample of a bespoke leucosene product was provided to a potential offtake customer in June. This niche product is targeted to meet the requirements of the premium titanium welding rod market and will be evaluated by potential new customers on a commercial scale, potentially creating new market opportunities for MZI.

Mineral Sands Market

The mineral sands market firmed considerably during the year on the back of a positive outlook for pigment as a result of the improving global economy. Chloride pigment producers experienced stronger demand, resulting in the depletion of inventory and placing upward pressure on feedstock prices.

Chinese producers have ramped up production in response to the positive outlook but are now experiencing weaker demand due to oversupply in local markets. This dampened sulphate pigment prices towards the end of the year as producers attempted to reduce inventory by lowering prices, and resulted in weaker demand for sulphate ilmenite, which had been performing strongly earlier in the year due to shortage of supply. There is now considerable effort in China to expand chloride pigment capacity to meet export opportunities, which will further increase demand for high grade chloride feedstock such as rutile and leucoxene.

The major Western pigment producers, which are predominately chloride pigment based, announced significant price increases in response to stronger demand for their product. These producers are now operating at high utilisation rates and are using higher grade feedstock to increase yield, which has been positive for existing feedstock producers. As a consequence demand and prices for high TiO₂ feedstock such as rutile and leucoxene have been steadily increasing which is expected to continue into the foreseeable future.

Zircon prices have strengthened during the year as a result of the larger producers limiting supply into the market. The limited supply situation is expected to continue, which along with a moderate increase in demand will lead to a shortage becoming apparent in the market. In turn this will maintain upward pressure on prices so further increases are expected in the coming year.

Health, Safety and Environment

There was 1 lost time injury during the reporting period with the Group rolling 12-month total recordable injury frequency rate (per 1 million hours worked) was 26.8 at the close of the year.

During the year, MZI Resources undertook a review of safety procedures and permits applying to high risk activities to ensure they met both legislative requirements and industry standards. The review covered working at heights, isolation and tagging, confined space entry, high voltage electrical access and powerline corridor access and excavations, all of which are considered key elements in the management of zero harm in the workplace.

New safety objectives and targets were developed with input from the workforce, with a new focus on the number of days since the last Lost Time Injury. Throughout the year MZI Resources continued to implement positive health initiatives for all of employees, with various programs rolled out across the business. These programs included an RUOK? day to support mental health and suicide prevention and free skin checks for employees.

A programme of environmental monitoring, data review, noise adaptive management and reporting was implemented to ensure compliance and ongoing improvement. Initiatives completed in the year to 30 June 2017 have rectified a number instances of minor non-conformance and unsatisfactory performance. Significant improvement in several key environmental aspects associated with mining activities, in particular the management of noise emissions, land rehabilitation and environmental monitoring, were achieved during the second half of the financial year.

The Company significantly increased its efforts to raise its performance in noise management and control over the second half of the year. Systems were introduced to monitor and manage the noise profile on a daily basis and various initiatives were introduced to subdue the audibility of both fixed plant and mobile equipment. These initiatives included refinement of the adaptive noise management plan, deployment of additional monitoring equipment, fully enclosing the WCP and installing noise cladding on individual items of equipment. Mining activity was restricted to day time operations in the early part of 2017 while the new systems were introduced and the equipment upgrades completed.

In June 2017, MZI submitted a comprehensive and detailed report on the management of noise on the Keysbrook site to the regulatory authorities post its first year of operations. This report highlighted the various initiatives and improvements made on site particularly since the start of the year. The report also compared the appropriateness of the noise regulations established for the site with the actual operational environment and local conditions.

The 2017 pasture rehabilitation programme was completed with the seeding of 22 hectares. Other open ground not fully prepared was seeded with a cover crop to stabilise the surface, which will also serve to enhance subsequent rehabilitation performance. Rehabilitation works to enhance the quality of native vegetation within a 25 hectare area designated for conservation were also completed.

Extensive environmental monitoring programmes continued with Performance and Compliance Reports submitted in accordance with regulatory obligations.

Community

Engagement activities with neighbours and other key stakeholders continued during the year as part of MZI's Community Relations Framework which guides engagement activities to ensure regular engagement with key stakeholders relevant to the Keysbrook project. Activities for the year included an annual community briefing, Company newsletters, regular project updates and site tours for local MPs, Shire Councillors, Peel Development Commission and other local groups such as the volunteer bushfire brigades.

The Company's Community Partnership Program funded a total of 13 programs throughout the year, which included investment in the areas of art and culture, education, emergency services and sport. A major funding investment of \$40,000 was recently announced in conjunction with major shareholder RCF. MZI and RCF partnered with the Shire of Murray and the North Dandalup Community Group, for the installation of reverse cycle air conditioning in the North Dandalup Community Hall, enabling the hall to be used all year round to host various community events.

The Company's inaugural Mine Open Day was held in November 2016 to mark the first year of operations. Approximately 350 people, which included local community and employees, toured the operations which showcased the mining fleet, a walking tour inside the wet concentrator plant, newly rehabilitated pastoral land and displays hosted by a number of local suppliers.

MZI's Keysbrook Community Consultative Group (CCG) met four (4) times during the year. The CCG consists of an independent Chairperson, community representatives from Keysbrook and North Dandalup, Shire Councillors from both the Shire of Murray and Shire of Serpentine Jarrahdale and MZI personnel. In addition to providing community feedback to the Company, the CCG also considers and recommends sponsorship applications received as part of MZI's Community Partnership Program. Minutes from the CCG meetings are posted on the MZI website following each meeting.

Geology and Regional Exploration

Activities focused on preparation of updated estimates of both resources and reserves for the Keysbrook Project, completion of which is anticipated for release shortly after the release of the 2017 Financial Statements.

Tiwi Islands

Activities during the year focused on the monitoring of rehabilitation post removal of remaining infrastructure during the prior year. An inspection of the progress of rehabilitation at the Andranangoo and Lethbridge West sites was undertaken by the federal Department of Environment and Energy in October 2016.

An updated Mine Closure and Rehabilitation Report and annual report of activities was submitted to the NT Department of Primary Industry and Resources in April 2017.

Corporate

During the period, MZI announced a number of leadership changes which included the resignation of Mr Matthews as Managing Director and the retirement of Mr Randall from the Board. Mr Matthews and Mr Randall were instrumental in developing, financing, constructing and commissioning the Keysbrook Project. As part of a transition process, MZI Resources' Independent Non-Executive Director Dr Steve Ward was appointed as interim Managing Director while an executive search for a permanent candidate was conducted. The Company subsequently announced the appointment of highly experienced resources executive, Mr Martin Purvis as Managing Director in May 2017. Mr Purvis commenced duties in July 2017 with Dr Ward resuming duties as a non-executive director.

MZI announced a US\$16m debt funding package with Resource Capital Fund VI L.P. in November 2016 to support the optimisation activities required at the Keysbrook Operations. The facility was subsequently increased in June 2017 to provide an additional US\$5m to support the Group's land access strategy. Subsequent to year end, RCF agreed to provide an additional US\$5m to support the planned increase in throughput to 5.25Mtpa and to provide additional working capital pending the restructure of the Group's balance sheet described below.

The Group commenced a review of its capital structure and announced the appointment of Northcott Capital Limited as Corporate Financial Adviser to MZI to assess the Company's existing financing arrangements and to assist with the delivery of the most appropriate and efficient structure for MZI going forward. The review encompasses a wide range of potential options to achieve a simpler and more efficient balance sheet to reflect MZI's long term future as a mineral sands producer. It is expected that the refinancing initiative will be completed early in 2018.

Included in the Consolidated Financial Statements for the year ended 30 June 2017 is an independent auditor's report which includes an Emphasis of Matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. For further information, refer to Note 3 to the Financial Statements, together with the auditor's report.

4.3 Likely Developments and Business Strategies

The likely developments of the Group and the expected results of those developments in the coming financial year are as follows:

- ▶ implementation of the 5.25Mtpa Keysbrook Operating Plan to increase production and lower unit costs
- ▶ progression of the refinancing initiative with completion targeted in early 2018
- ▶ continued mineral sands exploration and assessment of other development opportunities in Keysbrook and the surrounding region

5 Events Subsequent to the end of the Reporting Period

On 7 July 2017, the Company issued 4,253,870 fully paid ordinary shares at an issue price of \$0.2004 per share plus 481,271 fully paid ordinary shares at an issue price of \$0.2044 per share to RCF for payment of interest for the June 2017 quarter, associated with the Keysbrook finance facilities.

Mr Martin Purvis commenced in the role of Managing Director on 1 July 2017.

The Additional Working Capital Facility provided by RCF was increased in September 2017 to a total of US\$26m to support the 5.25Mtpa Keysbrook Operating Plan and to provide additional working capital pending the restructure of the Group's balance sheet.

6 Environmental Regulations

The Group's mining and mineral exploration activities are subject to various State, Territory and Commonwealth Government environmental laws and regulations. The Group is a party to various approvals and licences issued pursuant to the environmental legislation and regards full compliance with these laws, regulations and conditions of approval as the minimum acceptable standard for all operations and activities.

Environmental performance and compliance is managed by the business and monitored by the Board of Directors. Numerous compliance, performance and data reports were submitted to federal, state and local government agencies during the year in fulfilment of regulatory requirements.

No material breaches of the Group's permits or statutory obligations occurred during the year ended 30 June 2017.

7 Options Granted Over Unissued Shares

At the date of this report, 4,575,000 fully paid ordinary shares, which are subject to options, were unissued. The terms of these options are as follows:

	Number
Exercisable at \$0.34 each on or before 19 November 2017	775,000
Exercisable at \$0.65 each on or before 1 December 2019	2,800,000
Exercisable at \$0.50 each on or before 1 December 2019	1,000,000
Total	4,575,000

8 Non Audit Services

The Company may at times employ the auditor on non-audit assignments that are additional to the provision of statutory audit duties where the auditor's expertise with the Group is important. There were no non-audit services provided during the year.

Details of the amounts paid or payable to the auditor, PricewaterhouseCoopers for the services provided during the year are disclosed at Note 21 to the Financial Statements.

9 Indemnification and Insurance of Directors and Officers

The Company has taken out an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim brought by a third party against the Company or its current or former Directors or Officers and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as a Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The Company indemnifies each of the Directors and Officers of the Company. Under its Constitution, the Company will indemnify those Directors or Officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities as Directors or Officers of the Company or any related entities.

10 Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors PricewaterhouseCoopers, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify PricewaterhouseCoopers during or since the financial year.

11 Rounding

The amounts contained in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) pursuant to the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which this class order applies.

12 Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is included on page 28 of this financial report.

13 Remuneration Report - Audited

This report sets out the remuneration arrangements in place for Directors and senior management of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Company.

13.1 Key Management Personnel

The names and positions of the KMP of the Company and the Group during the financial year were:

Rodney Baxter	(i)	Independent Non-Executive Chairman	
Stephen Ward	(ii)	Independent Non-Executive Director Interim Managing Director and Chief Executive Officer	Appointed 7 November 2016
Chi To (Nathan) Wong		Non-Independent Non-Executive Director	
Maree Arnason		Independent Non-Executive Director	
Ronald Beevor		Non-Independent Non-Executive Director	
Martin Purvis	(iii)	Managing Director	Announced 3 May, Commenced 1 July 2017
John Westdorp		Chief Financial Officer	
Kevin Watters		Head of Operations	Appointed 7 November 2016
Graeme O'Grady		General Manager Marketing	
Malcolm Randall	(iv)	Independent Non-Executive Director	Resigned 22 November 2016
Trevor Matthews		Managing Director	Resigned 7 November 2016
Michael Ferraro		Chief Operating Officer	Resigned 7 November 2016
Jamie Wright		Chief Development Officer	Position redundant effective 1 July 2016
Peter Gazzard		Technical Director	Retired 1 July 2016

- (i) Mr Baxter was a Non-Executive Director for whole of the financial year to 22 August 2016. Mr Baxter was appointed Non-Executive Chairman on 22 August 2016.
- (ii) Dr Ward was an Independent Non-Executive Director for the whole of the financial year to 7 November 2016. At the Board's request he served as Interim Managing Director and Chief Executive Officer from 7 November 2016 until 7 July 2017 at which time he resumed his role as a Non-Executive Director.
- (iii) On 3 May 2017 the Company announced the appointment of Mr Purvis as Managing Director to commence duties on 1 July 2017.
- (iv) Mr Randall resigned as Non-Executive Chairman on 22 August 2016 at which time he was appointed as an Independent Non-Executive Director. Mr Randall subsequently resigned as a Non-Executive Director on 22 November 2016. As part of succession planning, Mr Randall was retained as a consultant for a period of one (1) year from the AGM held on 22 November 2016.

13.2 Remuneration Policy and Link to Performance

The Group's remuneration policy encompasses the total value Directors and executives receive as a result of their employment, including all forms of salary, short and long-term incentives and benefits (direct cash or otherwise). It is the belief of the Board of Directors that ensuring the employees of the Company are competitively remunerated is critical to the Group's success.

The Board is responsible for the nomination and appointment of Directors and the remuneration of its Directors, Managing Director, and Senior Executives. To assist the Board in meeting its obligations and to address all matters pertaining to Board nomination and to Board and Executive remuneration as recommended by the 3rd Edition of the ASX Corporate Governance Principles, together with its regulatory obligations, the Board of MZI established a Remuneration Committee and a Nomination Committee in accordance with the Company's Constitution. These committees were merged on 28 September 2016 to form the Nomination and Remuneration Committee.

The purpose of the Nomination and Remuneration Committee is to:

- ▶ ensure that the MZI Group comprises individuals who have the appropriate mix of skills and experience and are best able to discharge the responsibilities of Directors or representatives of MZI having regard to the law and aspiring to excellence in governance standards
- ▶ assist the Board to discharge its responsibility by overseeing nomination and remuneration policies and practices of the MZI Group so that these policies and practices
- ▶ support the execution of the Company's strategy and the achievement of its objectives
- ▶ link rewards to the creation of value for shareholders

- ▶ apply demanding performance measures, including key financial and non- financial measures of performance
- ▶ attract and retain talent so as to achieve operational excellence
- ▶ fairly and responsibly reward individuals having regard to individual and Company performance and industry remuneration conditions

During the period, remuneration policies were reviewed by the Nomination and Remuneration Committee and recommendations were made to the Board of Directors to reflect market and business conditions. Remuneration and other terms of employment are reviewed annually having regard to performance, relevant comparative information and independent expert advice.

The Group's remuneration policy for its KMP is designed to promote superior performance and long-term commitment to the Group. Remuneration packages are set at levels that are intended to attract and retain KMP capable of managing the Group's operations and achieving the Company's business objectives. KMP receive a base remuneration and at the discretion of the Board short and long term incentives, which are assessed regularly against market data for similar roles.

The Group's remuneration policies are designed to align remuneration with shareholders' interests and to retain appropriately qualified talent for the benefit of the Group. The main principles of the policy include:

- ▶ rewards reflect the market in which the Group operates
- ▶ individual incentive rewards are linked to performance criteria
- ▶ KMP and employees should be rewarded for both financial and non-financial performance

Section 13.5 details the link between incentive programs and performance of the Group.

13.3 Use of Remuneration Consultants

During the financial year ended 30 June 2017 the Nomination and Remuneration Committee sought advice from Mercer Consulting (Australia) Pty Ltd ("Mercer") regarding market data and advice in relation to senior management remuneration packages and incentive structures. The total fees paid to Mercer for services during the year were \$23,000.

The advice considered the following key aspects of executive remuneration and referenced practices amongst a comparator group selected by Mercer:

- ▶ ratio of fixed and at risk remuneration
- ▶ the use of gateways for incentive programs amongst the comparator group and the appropriateness of the gateways approved by the Board for application to MZI incentive arrangements
- ▶ market practice in relation to levels of short and long term incentive award
- ▶ actual payout levels for executive incentive programs

Remuneration consultants are engaged by and report directly to the Nomination and Remuneration Committee and are required to confirm, in writing, their independence from the Company's senior management and other executives. As a consequence, the Board of Directors is satisfied that the recommendations were made free from undue influence from any members of the Key Management Personnel.

The advice received by Mercer resulted in some minor changes being made to executive remuneration structures including a reduction in the level of Short Term Incentives (STI) and Long Term Incentives (LTI). Whilst the use of gateways was uncommon amongst the comparator group, the Nomination and Remuneration Committee recommended to the Board that the gateways be maintained for both the STI and the LTI Plans in order to better align shareholder outcomes with the award of incentives to KMP.

13.4 Non-Executive Directors' Remuneration

In accordance with current corporate governance practices, the structure for the remuneration of Non-Executive Directors and employees is separate and distinct. Shareholders approve the aggregate or total fees payable to Non-Executive Directors, with the current approved limit being \$800,000 per annum (excluding share-based payments). The Board of Directors determines the actual payments to Directors, which are determined after considering advice from external advisors and with reference to fees paid to Non-Executive Directors of comparable companies.

The Board of Directors approves any consultancy arrangements for Non-Executive Directors who may provide services in addition to their duties as Non-Executive Directors. Non-Executive Directors may be entitled to statutory superannuation benefits. Non-Executive Directors may be entitled to participate in equity-based remuneration schemes. Shareholders must approve the framework for any equity-based remuneration schemes and if a recommendation is made for a Director to participate in an equity scheme, that participation must be specifically approved by shareholders.

Shareholders approved the issue of options to Non-Executive Directors in November 2015, June 2014 and August 2012. No options or other forms of equity have been issued to Non-Executive Directors during the year ending 30 June 2017.

All Directors are entitled to have indemnity insurance paid by MZI.

The tables below set out the board fees and fees Non-Executive Directors receive for chairing or serving on Board committees. These fees were established effective 1 July 2015 and have remain unchanged since that date and will not be subject to review until January 1 2018 at earliest.

2017	\$
Base fees	
Chair	120,000
Other non-executive directors	70,000
Additional fees	
Audit and Risk Committee - Chair	10,000
Audit and Risk Committee – member	5,000
Nomination Remuneration Committee - Chair	10,000
Nomination Remuneration Committee - member	5,000
Sustainability Committee - Chair	10,000
Sustainability Committee - member	5,000

2017		Board and committee fees \$	Non-monetary benefits \$	Other \$	Super- annuation \$	Options \$
Non-Executive Directors						
R Baxter		125,833	-	-	11,915	-
M Arnason	(i)	87,500	-	170,750	8,312	-
R Beevor		80,756	-	-	7,672	-
CT Wong		76,650	-	-	-	-
M Randall	(ii)	45,833	1,088	53,500	9,436	-
S Ward	(iii)	28,333			2,692	
Total		444,905	1,088	224,250	40,027	-

- (i) During the financial year, at the request of the Board, Ms Arnason provided advisory services to the Company in relation to Company regulatory and compliance matters. The amount of compensation was determined by the Board with reference to market remuneration rates for consultants with the requisite experience and skills necessary to perform the activities undertaken by Ms Arnason.
- (ii) Mr Randall resigned as Non-Executive Chairman on 22 August 2016 at which time he was appointed as an Independent Non-Executive Director. Mr Randall subsequently resigned as a Non-Executive Director on 22 November 2016. Mr Randall provided consulting services to the Company from mid December 2016 to 30 June 2017 with compensation set at \$8,000 per month plus superannuation.
- (iii) For disclosure of remuneration paid to Dr Ward as Interim Managing Director for the period from 7 November 2016 to 30 June 2017, refer to Section 13.7.

2016		Board and committee fees \$	Non-monetary benefits \$	Superannuation \$	Options \$
Non-Executive Directors					
M Randall		140,000	1,808	13,300	117,200
R Baxter		80,000	-	7,600	70,320
M Arnason		80,000	-	7,600	70,320
CT Wong		73,325	-	-	70,320
S Ward	(i)	69,018	-	24,057	70,320
R Beevor	(ii)	14,808	-	1,407	-
Total		457,151	1,808	53,964	398,480

(i) Appointed 1 March 2015.

(ii) Appointed 15 April 2016.

Non-monetary benefits include, where applicable, the cost to the Company of providing insurance and car parking plus the fringe benefits tax on those benefits.

13.5 Managing Director and Executive Remuneration

The structure of remuneration packages for KMP comprises:

- ▶ a fixed base salary payable in cash
- ▶ short-term incentives through eligibility to participate in equity plans and cash bonuses
- ▶ long-term incentives through eligibility to participate in equity plans with any equity issues being made in accordance with plans approved by shareholders
- ▶ other benefits such as superannuation and car parking

Remuneration outcomes for KMP are directly linked to share price performance under the LTI plan, while other remuneration components including fixed salary and STI awards are linked to meeting individual and corporate performance objectives rather than share price performance.

The Directors consider the principles of the remuneration policy are appropriate and provide the necessary balance between incentivising executives and employees and ensuring alignment of reward with shareholder value.

The proportion of fixed remuneration and variable remuneration is recommended for each executive by the Nomination and Remuneration Committee and approved by the Board. For the year ended 30 June 2017 the proportion was as follows:

Managing Director	Fixed remuneration (53%)	Target STI (21%) (40% of fixed)	Target LTI (26%) (50% of fixed)
Other Executives	Fixed remuneration (65%)	Target STI (17%) (27% of fixed)	Target LTI (17%) (27% of fixed)

The elements of remuneration are further described below.

Fixed Remuneration

KMP receive fixed remuneration as cash with non-monetary benefits such as parking, and superannuation.

Fixed remuneration is reviewed annually, on promotion or on significant change to role responsibilities. It is benchmarked against market data for comparable roles in the resources industry, market capitalisation and business model. Remuneration policy aims to position executives competitively in the market, with flexibility to take into account capability, experience, value to the organisation and performance of the individual. The Company policy is set at the market median. Fixed remuneration is reviewed in December each year. No increases to fixed remuneration were made in either the current or prior year.

Short Term Incentives (STI)

The STI is an annual at risk component of remuneration for KMP. It is payable based on performance against performance objectives set at the beginning of the financial year and includes a Company financial performance gateway and a capacity to pay determination. STIs are structured to remunerate KMP for achieving annual Company targets and individual performance targets. The net amount of any STI after allowing for applicable taxation, is payable in cash and/or shares.

Performance objectives require the achievement of strategic, operational or financial measures and in most cases are linked to the drivers of business performance. For each performance objective there are defined threshold, target and stretch measures which are capable of objective assessment. Target is the planned objective outcome, threshold is the minimum acceptable level of performance outcome and stretch is set to challenge the business and individuals. Threshold and stretch can be in a range up to +/- 10% of target. Target performance delivers a STI award equal to 20-40% of fixed remuneration, depending on executive level.

The Nomination and Remuneration Committee is responsible for recommending to the Board of Directors the STI gateways and KPIs for each KMP and then later assessing the extent to which the KPIs have been achieved, and the amount to be paid to each KMP. To assist in making this assessment, the Nomination and Remuneration Committee receives detailed reports and presentations on the performance of the business from the Managing Director and independent remuneration consultants.

The Group's STI performance objectives for the year ended 30 June 2017 include:

- ▶ improved safety performance measured by outcomes of safety audits, hazard identification response timeliness and Total Recordable Injury Frequency Rate compared to the prior year
- ▶ achievement of defined targets such as final saleable product, cash operating costs and earnings before interest, tax, depreciation and amortisation (EBITDA).

These measures have been selected as they can be reliably measured, are key drivers of value for shareholders and encourage behaviours in line with the Company's core values. The individual performance measures vary according to the individual KMP's position, and reflect value accretive and/or risk mitigation achievements for the benefit of the Company within each KMP's respective areas of responsibility.

The Nomination and Remuneration Committee recommends STI payments for approval by the Board. No STIs were payable for 2017 as financial performance gateways were not met.

Long Term Incentives

At the Board of Directors discretion, KMP participate in a LTI program comprising the annual grant of units in a share trust where one unit equates to one MZI share. The LTI dollar value that KMP are entitled to receive is set at a fixed percentage equating to 20-50% of fixed remuneration depending on the position of the KMP.

Performance objectives have been selected that reward KMP for creating shareholder value as determined via the increase in the Company's share price over a 3 year period. The LTI performance conditions are measured as follows:

- ▶ 50% of the LTI units in the share trust will be assessed for vesting based upon the Company's relative share price performance versus the ASX 300 Index per the scale below
 - below -10% of index performance – nil vesting
 - from -10% to 0% of index performance – vests at a rate of 2.5% of units in the share trust for each 1% movement
 - from 0% to 25% above index performance – vests at 3% of units in the share trust for each 1% movement
 - from 25% to 50% above index performance - vests at 4% of units for each 1% movement
- ▶ 50% of the LTI units in the share trust will be assessed for vesting based on the compound annual growth rate (CAGR) achieved in the price of the Company's shares from 1 January 2016 to 30 June 2018 per the scale below.
 - from 0% to 10% - vests at 3% of units in the share trust for each 1% of CAGR
 - above 10% - vests at 7% of units in the share trust for each 1% of CAGR

In both cases, no award will be granted unless the Company's share price at the vesting date exceeds the share price at grant date. Outperformance over the assessment period can result in a maximum award of 200% of target award. Shares may not be disposed of by the KMP within 12 months of the vesting date.

13.6 Cash Value of Earnings Realised

The actual cash remuneration earned by KMP in the 2017 financial year is set out in the table below. This information is considered to be relevant as it provides shareholders with a view of the remuneration actually received and the value of any award under the incentive plans in which KMP may participate. The information provided below differs from that presented in Section 13.7 which is prepared in accordance with statutory obligations and accounting standards. The information provided in Section 13.7 includes the value of equity allocations granted under the STI and LTI plans which are subject to performance conditions and which may or may not vest. Where equity awards are granted and have subsequently been forfeited, the accounting standards do not allow the value of the forfeiture to be recorded where the performance conditions associated with the grant relate to market conditions.

As was the case during the prior year, allocations under the STI plans made during the year ended 30 June 2017 were subject to achieving a minimum profit based threshold or gateway in order to align incentive award outcomes with shareholder value. The gateway was not achieved and the Board has determined that no award will be made under the STI plan. As was also the case in the prior year, allocations to KMP under the STI plan have therefore been forfeited.

The first allocations made under the LTI plan are due to vest on 30 June 2018. In order to receive any award under the scheme, the share price at the vesting date will need to exceed \$0.38 per share.

2017		Fixed remuneration (i) \$	Short term incentive (ii) \$	Long term incentive (iii) \$	Total actual remuneration \$
Executive Directors					
S Ward	(iv)	429,854	-	-	429,854
T Matthews	(v)	566,530	-	-	566,530
Other KMP					
M Ferraro	(vi)	414,808	-	-	414,808
J Westdorp		378,430	-	-	378,430
G O'Grady		256,970	-	-	256,970
K Watters	(vii)	251,944	-	-	251,944
J Wright	(viii)	194,162	-	-	194,162
P Gazzard	(ix)	244,517	-	-	244,517
Total		2,737,215	-	-	2,737,215

- (i) Fixed remuneration includes base salary, non-monetary benefits and super-annuation and reflects the totals of these 3 components of remuneration disclosed in the table in Section 13.7.
- (ii) Short term incentive relates to the amount actually earned in the financial year in relation to the grants under the STI plan. Equity awards granted to KMP under the STI plan for the years ended 30 June 2017 and 30 June 2016 have been forfeited due to failure to meet the profit gateway set by the Board as the minimum performance threshold.
- (iii) Long term incentive relates to the amount earned in the financial year in relation to the grants under the LTI plan. No equity allocations made under the LTI plan vested during the financial year and no value was realised by KMP. The first vesting date under the LTI plan is 30 June 2018. The Company's share price must exceed 38c at this date in order for KMP to receive any value under the plan.
- (iv) Appointed Interim Managing Director 7 November 2016. For disclosure of fees paid to Dr Ward as a Non-Executive Director for the period from 1 July 2016 to 6 November 2016, refer to Section 13.4.
- (v) Resigned 7 November 2016.
- (vi) Resigned 7 November 2016.
- (vii) Commenced 7 November 2016.
- (viii) Position redundant effective 1 July 2016.
- (ix) Retired 1 July 2016.

13.7 Details of Remuneration

The following tables disclose details of the nature and amount of each element of remuneration for the Managing Director and other KMP of MZI and the Group for the year ended 30 June 2017.

Details of remuneration provided to the Managing Director, Interim Managing Director and other KMP are as follows:

2017	Short-term benefits		Post-employment benefits			Share-based payments	
	Salary \$	Non-monetary benefits \$	Short term incentive \$	Super-annuation \$	Options\$	Rights over shares \$	Performance related %
Executive Directors							
S Ward (i)	358,878	5,858	-	34,093	-	-	0%
T Matthews (ii)	535,919	3,944	-	26,667	-	-	0%
Other KMP							
M Ferraro (iii)	384,541	3,702	-	26,565	-	-	0%
J Westdorp	340,000	6,130	-	32,300	-	113,790	23%
G O'Grady	230,000	5,120	-	21,850	-	51,770	17%
K Watters (iv)	214,542	17,020	-	20,382	-	-	0%
J Wright (v)	193,649	513	-	-	-	-	0%
P Gazzard (vi)	224,831	3,077	-	16,609	-	-	0%
Total	2,482,360	45,364	-	178,466	-	165,560	-

(i) Remuneration for Interim Managing Director role from 7 November 2016 to 30 June 2017.

(ii) Resigned 7 November 2016.

(iii) Resigned 7 November 2016.

(iv) Commenced 7 November 2016.

(v) Position redundant effective 1 July 2016. Payment for the period reflects termination compensation.

(vi) Retired 1 July 2016.

2016	Short-term benefits		Post-employment benefits			Share-based payments	
	Salary \$	Non-monetary benefits \$	Short term incentive \$	Super-annuation \$	Options \$	Rights over shares \$	Performance related %
Executive Director							
T Matthews	464,535	5,934	23,951	37,275	70,320	492,351	51%
Other KMP							
M Ferraro	360,043	5,761	-	34,204	46,880	367,302	51%
J Westdorp	349,007	4,558	-	33,156	46,880	336,459	50%
J Wright	323,415	5,472	25,469	33,144	46,880	315,397	48%
P Gazzard	244,753	3,887	18,647	32,992	-	61,253	17%
G O'Grady	230,000	4,836	-	21,850	23,440	105,697	33%
Total	1,971,753	30,448	68,067	192,621	234,400	1,678,459	-

Non-monetary benefits include, where applicable, the cost to the Company of providing fringe benefits and the fringe benefits tax on those benefits.

13.8 Shareholdings of KMP

Details of shareholdings of KMP are as follows:

2017		Balance at the start of the year	Received on vesting of rights over shares	Net change - other	Balance at the end of the year
Executive Directors					
S Ward		215,000	-	-	215,000
T Matthews	(i)	1,126,414	-	-	n/a
Non-Executive Directors					
R Baxter		75,000	-	-	75,000
CT Wong	(ii)	2,870,602	-	-	2,870,602
M Arnason		125,000	-	-	125,000
R Beevor		300,024	-	-	300,024
M Randall	(i)	625,000	-	-	n/a
Other KMP					
J Westdorp		198,656	-	-	198,656
G O'Grady		69,105	-	-	69,105
K Watters		-	-	-	-
P Gazzard	(i)	997,658	-	-	n/a
J Wright	(i)	745,454	-	-	n/a
M Ferraro	(i)	241,677	-	-	n/a

(i) T Matthews, M Randall, P Gazzard, J Wright and M Ferraro ceased to be KMP during the year ended 30 June 2017.

(ii) Mr Wong's holding is indirect. Shares are beneficially held by Tricoastal Minerals (Holdings) Company Limited.

2016		Balance at the start of the year	Received on vesting of rights over shares	Net change - other	Balance at the end of the year
Executive Director					
T Matthews	(i)	926,079	700,335	(500,000)	1,126,414
Non-Executive Directors					
M Randall	(ii)	500,000	-	125,000	625,000
CT Wong	(iv)	2,870,602	-	-	2,870,602
S Ward	(ii)	90,000	-	125,000	215,000
R Baxter	(ii)	-	-	75,000	75,000
M Arnason	(ii)	-	-	125,000	125,000
R Beevor	(iii)	-	-	300,024	300,024
Other KMP					
J Westdorp		4,750	193,906	-	198,656
G O'Grady		-	69,105	-	69,105
P Gazzard		646,244	351,414	-	997,658
J Wright		357,940	387,514	-	745,454
M Ferraro		-	241,677	-	241,677

(i) Disposal of shares to a family member in an off market transfer.

(ii) Participation in a share placement as approved by shareholders on 24 November 2015.

(iii) Initial director's interest.

(iv) Mr Wong's holding is indirect. Shares are beneficially held by Tricoastal Minerals (Holdings) Company Limited.

13.9 Share-Based Payments

Directors, key employees and consultants may be eligible to participate in equity-based compensation schemes.

The primary purpose of the schemes is to increase motivation, promote retention and align the interests of Directors, employees and consultants with those of the Company and its shareholders and to reward contribution to the growth of the Company.

Employee Share Options

Under the terms and conditions of the options issued to employees, each option gives the holder the right to subscribe for one fully paid ordinary share. Any option not exercised before the expiry date will lapse on the expiry date.

Options have been valued using the Black-Scholes option valuation method. Options issued to employees were issued under the Employee Incentive Plan approved by shareholders on 24 November 2015. The following table lists the inputs to the model for options outstanding during the period:

	Series 10	Series 13 Issued to Directors	Series 13 Issued to Employees
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	99.40%	99.70%	99.70%
Risk-free interest rate (%)	2.70%	2.21%	2.21%
Expected life of options (years)	3.000	4.000	4.000
Exercise price (cents)	80.0	65.0	65.0
Grant date share price (cents)	36.0	38.5	38.5
Grant Date	27 Jun 14	1 Dec 15	1 Dec 15
Expiry Date	27 Jun 17	1 Dec 19	1 Dec 19
Number	200,000	1,700,000	1,100,000
Fair value at grant date	\$0.1680	\$0.2344	\$0.2344

There are no participating rights or entitlements inherent in the options and the holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. All shares allotted upon the exercise of options will rank pari passu in all respects with other shares.

Employee Share Trust Plan

Under the terms and conditions of the Plan, each unit in the Employee Share Trust gives the holder the right to one fully paid ordinary share for nil consideration provided the relevant incentive plan criteria has been met. Any unit not exercised before the nominated expiry date will lapse on the expiry date. Units have been valued by using the prevailing market price at the date of issue less the present value of any expected dividends that will not be received on the units over the vesting period.

There are no participating rights or entitlements inherent in the units and the unitholders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the units. All shares allotted upon the exercise of the unit will rank pari passu in all respects with other shares.

The table below shows a reconciliation of options held by each KMP during the year:

2017	Grant date		Opening balance vested and exercisable	Opening balance unvested	Granted as compensation	Vested	Vested %	Exercised	Forfeited	Forfeited %	Closing balance vested and exercisable	Closing balance unvested
T Matthews	1 Dec 2015	(ii)	-	300,000	-	-	-	-	300,000	100%	-	-
M Randall	1 Dec 2015	(ii)	-	500,000	-	500,000	100%	-	500,000	100%	-	-
	27 Jun 2014	(i)	125,000	-	-	-	-	-	125,000	100%	-	-
CT Wong	1 Dec 2015		-	300,000	-	300,000	100%	-	-	-	300,000	-
	27 Jun 2014	(i)	75,000	-	-	-	-	-	75,000	100%	-	-
S Ward	1 Dec 2015		-	300,000	-	300,000	100%	-	-	-	300,000	-
R Baxter	1 Dec 2015		-	300,000	-	300,000	100%	-	-	-	300,000	-
M Arnason	1 Dec 2015		-	300,000	-	300,000	100%	-	-	-	300,000	-
M Ferraro	1 Dec 2015	(ii)	-	200,000	-	-	-	-	200,000	100%	-	-
J Westdorp	1 Dec 2015		-	200,000	-	200,000	100%	-	-	-	200,000	-
G O'Grady	1 Dec 2015		-	100,000	-	100,000	100%	-	-	-	100,000	-
J Wright	1 Dec 2015	(ii)	-	200,000	-	-	-	-	200,000	100%	-	-

(i) Expired 27 June 2017.

(ii) Forfeited on resignation of KMP.

2016	Grant date		Opening balance vested and exercisable	Opening balance unvested	Granted as compensation	Vested	Vested %	Exercised	Forfeited	Forfeited %	Closing balance vested and exercisable	Closing balance unvested
T Matthews	1 Dec 2015		-	-	300,000	-	-	-	-	-	-	300,000
	27 Apr 2012	(i)	125,000	-	-	-	-	-	125,000	100%	-	-
M Randall	1 Dec 2015		-	-	500,000	-	-	-	-	-	-	500,000
	27 Jun 2014		125,000	-	-	-	-	-	-	-	125,000	
	31 Aug 2012	(ii)	125,000	-	-	-	-	-	125,000	100%	-	-
CT Wong	1 Dec 2015		-	-	300,000	-	-	-	-	-	-	300,000
	27 Jun 2014		75,000	-	-	-	-	-	-	-	75,000	
	31 Aug 2012	(ii)	125,000	-	-	-	-	-	125,000	100%	-	-
S Ward	1 Dec 2015		-	-	300,000	-	-	-	-	-	-	300,000
R Baxter	1 Dec 2015		-	-	300,000	-	-	-	-	-	-	300,000
M Arnason	1 Dec 2015		-	-	300,000	-	-	-	-	-	-	300,000
M Ferraro	1 Dec 2015		-	-	200,000	-	-	-	-	-	-	200,000
J Westdorp	1 Dec 2015		-	-	200,000	-	-	-	-	-	-	200,000
G O'Grady	1 Dec 2015		-	-	100,000	-	-	-	-	-	-	100,000
J Wright	1 Dec 2015		-	-	200,000	-	-	-	-	-	-	200,000
P Gazzard	31 Aug 2012	(ii)	125,000	-	-	-	-	-	125,000	100%	-	-

(i) Expired on 30 June 2016.

(ii) Expired on 31 December 2015.

The table below shows a reconciliation of share rights held by each KMP during the year:

2017	Grant date		Opening balance unvested	Granted	Issue price \$	Vested	Vested %	Forfeited	Forfeited %	Closing balance unvested	Maximum value yet to vest \$
T Matthews	24 Feb 2016	(i)	494,185	-	0.41	-	-	494,185	100%	-	-
	24 Feb 2016	(i)	555,416	-	0.38	-	-	555,416	100%	-	-
M Ferraro	24 Feb 2016	(i)	337,964	-	0.41	-	-	337,964	100%	-	-
	24 Feb 2016	(i)	303,871	-	0.38	-	-	303,871	100%	-	-
J Westdorp	19 Dec 2016	(ii)	-	464,449	0.24	-	-	464,449	100%	-	-
	19 Dec 2016		-	464,449	0.24	-	-	-	-	464,449	113,790
	24 Feb 2016	(ii)	323,793	-	0.41	-	-	323,793	100%	-	-
	24 Feb 2016		291,129	-	0.38	-	-	-	-	291,129	110,629
G O'Grady	19 Dec 2016	(ii)	-	211,306	0.24	-	-	211,306	100%	-	-
	19 Dec 2016		-	211,306	0.24	-	-	-	-	211,306	51,770
	24 Feb 2016	(ii)	126,268	-	0.41	-	-	126,268	100%	-	-
	24 Feb 2016		141,913	-	0.38	-	-	-	-	141,913	53,927
J Wright	24 Feb 2016	(i)	308,290	-	0.41	-	-	308,290	100%	-	-
	24 Feb 2016	(i)	277,190	-	0.38	-	-	277,190	100%	-	-
K Watters	20 Dec 2016	(ii)	-	232,258	0.31	-	-	232,258	100%	-	-

(i) Share rights forfeited due to resignations or redundancy during the financial year.

(ii) Share rights forfeited as vesting conditions have not been met during the financial year.

2016	Grant date	Opening balance unvested	Granted	Issue price \$	Vested	Vested %	Forfeited	Forfeited %	Closing balance unvested	Maximum value yet to vest \$
T Matthews	24 Feb 2016	-	494,185	0.41	-	-	-	-	494,185	202,616
	24 Feb 2016	-	555,416	0.38	-	-	-	-	555,416	211,058
	1 Dec 2015	-	191,896	0.41	191,896	100%	-	-	-	-
	25 Feb 2014	508,439	-	-	508,439	100%	-	-	-	-
M Ferraro	24 Feb 2016	-	337,964	0.41	-	-	-	-	337,964	138,565
	24 Feb 2016	-	303,871	0.38	-	-	-	-	303,871	115,471
	1 Dec 2015	-	202,552	0.48	202,552	100%	-	-	-	-
	1 Dec 2015	-	39,125	0.41	39,125	100%	-	-	-	-
J Westdorp	24 Feb 2016	-	323,793	0.41	-	-	-	-	323,793	132,755
	24 Feb 2016	-	291,129	0.38	-	-	-	-	291,129	110,629
	1 Dec 2015	-	193,906	0.48	193,906	100%	-	-	-	-
G O'Grady	24 Feb 2016	-	126,268	0.41	-	-	-	-	126,268	51,770
	24 Feb 2016	-	141,913	0.38	-	-	-	-	141,913	53,927
	1 Dec 2015	-	69,105	0.41	69,105	100%	-	-	-	-
P Gazzard	1 Dec 2015	-	149,397	0.41	149,397	100%	-	-	-	-
	25 Feb 2014	202,017	-	-	202,017	100%	-	-	-	-
J Wright	24 Feb 2016	-	308,290	0.41	-	-	-	-	308,290	126,399
	24 Feb 2016	-	277,190	0.38	-	-	-	-	277,190	105,332
	1 Dec 2015	-	204,062	0.41	204,062	100%	-	-	-	-
	25 Feb 2014	183,452	-	-	183,452	100%	-	-	-	-

- (i) Share rights forfeited due to resignations or redundancy during the financial year.
- (ii) Share rights forfeited as vesting conditions have not been met during the financial year.

13.10 Terms of Employment

The terms of employment for the Interim Managing Director and specified senior management are formalised in service agreements. Major provisions of the agreements relating to duration and termination as at 30 June 2017 are set out below:

Name		Base salary	Notice period Company	Notice period Employee	Termination provision
S Ward	(i)	\$45,662 per month	3 months or the remaining period of the fixed term	3 months or the remaining period of the fixed term	Accrued leave entitlements
M Purvis	(ii)	\$456,201 pa	3 months	1 month for breach of contract or 3 months	Accrued leave entitlements
J Westdorp		\$340,000 pa	6 months	1 month for breach of contract or 3 months	Accrued leave entitlements
K Watters	(iii)	\$328,767 pa	3 months	1 month for breach of contract or 3 months	Accrued leave entitlements
M Ferraro	(iv)	\$355,160 pa	6 months	1 month for breach of contract or 3 months	Accrued leave entitlements
G O'Grady		\$230,000 pa	3 months	1 month for breach of contract or 3 months	Accrued leave entitlements

(i) Initial terms of employment varied 9 March 2017:

- ▶ contract extended on a month by month basis beyond fixed term.
- ▶ notice periods amended to 1 month.

On 5 May 2017, completion date agreed to be 7 July 2017.

(ii) M Purvis was announced as Managing Director on 3 May 2017 and commenced employment in July 2017.

(iii) Revised terms of employment executed 13 June 2017, effective 1 July 2017. Revised terms incorporate the following key provisions:

- ▶ fixed term contract expiring 30 June 2019
- ▶ retention payment of \$50,000 payable for every 6 months of completed service in lieu of LTIP
- ▶ the executive may resign without notice in certain special circumstances

(iv) M Ferraro resigned on 7 November 2016.

13.11 Other Transactions with KMPs and Their Related Parties

Tricoastal Minerals (Holdings) Company Limited ("Tricoastal") is a company in which Mr CT Wong has a beneficial interest. During the year ended 30 June 2017, the Group entered into a Variation to the Settlement Deed with Tricoastal which allowed the Group to defer the repayment date of its US\$268,510 debt to Tricoastal from 31 March 2016 to no later than 31 March 2018. All other terms remain unchanged.

During the year ended 30 June 2017, the Company sold zircon concentrate product from its Keysbrook project to Tricoastal with a total value of US\$7.020m (2016: US\$3.794m). This was based on a sales agreement signed in 2014. The terms of sale are based on market prices at the time of sale.

Resource Capital Fund VI L.P. ("RCF"), a major shareholder of the Company, which nominated Mr R Beevor as a Director, was paid Interest and Commitment Fees of US\$3.345m (2016: US\$3.463m). At 30 June 2017, an amount of \$0.019m (2016: \$0.019m) was owed to RCF.

In addition, an amount of US\$21.0m was drawn down in relation to Bridge Finance Facilities provided by RCF during the year ended 30 June 2017.

End of Audited Remuneration Report

Signed in accordance with a resolution of the Board of Directors:

M Purvis
Managing Director

A handwritten signature in blue ink, appearing to read 'M Purvis', is written over a faint, light blue circular stamp. The signature is fluid and cursive.

Perth, Western Australia
28 September 2017

14 Auditor's Independence Declaration

**Auditor's Independence Declaration**

As lead auditor for the audit of MZI Resources Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of MZI Resources Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Ben Gargett'.

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
28 September 2017

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
As at 30 June 2017

15 Financial Statements

15.1 Consolidated Statement of Comprehensive Income

	Note	2017 \$'000	2016* \$'000
Continuing Operations			
Revenue from sales	5	39,612	17,346
Costs of production	5	(33,689)	(10,693)
		5,923	6,653
Depreciation and amortisation	5	(11,279)	(8,277)
Other operating costs relating to sales	5	(9,958)	(7,889)
Gross Loss		(15,314)	(9,513)
Other revenue	5	24	24
Other income	5	5,003	272
Corporate expenses	5	(5,697)	(6,251)
Other expenses	5	(3,326)	(2,455)
Gain /(Loss) on foreign exchange	5	4,007	(9,752)
Fair value movements on financial instrument derivatives	5	(1,924)	-
Loss before Finance and Tax		(17,227)	(27,675)
Fair value movement on financial instrument embedded derivative	5	2,147	9,732
Finance expenses	5	(16,328)	(10,611)
Loss before Tax		(31,408)	(28,554)
Tax expense		-	-
Loss after Tax from Continuing Operations		(31,408)	(28,554)
Attributable to:			
Equity holders of the parent		(31,408)	(28,554)
Other Comprehensive Income, net of income tax:			
Items that may be reclassified to profit or loss:			
Effective portion of changes in fair value of cash flow hedges, net of tax		3,159	(592)
Total Comprehensive Loss for the Year		(28,249)	(29,146)
Attributable to:			
Equity holders of the parent		(28,249)	(29,146)
Basic and diluted loss per share (cents per share)	22	(0.15)	(0.20)

The accompanying Notes form part of these Financial Statements.

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

15.2 Consolidated Statement of Financial Position

	Note	2017 \$'000	2016* \$'000
Current Assets			
Cash and cash equivalents	7(a)	10,656	2,500
Trade and other receivables	7(b)	657	10,710
Inventories	8(a)	4,734	4,227
Other current assets	7(d)	954	922
Other financial assets	7(c)	1,581	265
Total Current Assets		18,582	18,624
Non-Current Assets			
Trade and other receivables	7(b)	682	682
Other financial assets	7(c)	155	-
Property, plant and equipment	8(b)	88,210	86,411
Exploration and evaluation expenditure	8(c)	886	615
Mine development expenditure	8(d)	43,131	42,352
Total Non-Current Assets		133,064	130,060
Total Assets		151,646	148,684
Current Liabilities			
Trade and other payables	7(e)	9,227	6,487
Provisions	8(e)	3,024	1,227
Other financial liabilities	7(f)	2,321	7,219
Borrowings	7(g)	45,759	11,803
Total Current Liabilities		60,331	26,736
Non-Current Liabilities			
Provisions	8(e)	6,935	6,028
Other financial liabilities	7(f)	3,604	329
Borrowings	7(g)	82,250	93,062
Total Non-Current Liabilities		92,789	99,419
Total Liabilities		153,120	126,155
Net Assets / (Liability)		(1,474)	22,529
Equity			
Share capital	9(a)	117,908	114,041
Reserves		3,197	(341)
Accumulated losses		(122,579)	(91,171)
Total Equity		(1,474)	22,529

The accompanying Notes form part of these Financial Statements.

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

The statement of Financial Position for the year ended 30 June 2015 is not presented as balances were not impacted by error.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017

15.3 Consolidated Statement of Changes in Equity

	Ordinary Shares \$'000	Cash Flow Hedge Reserve \$'000	Employee Share Trust Reserve \$'000	Share-based Payments Reserve \$'000	Option Reserve \$'000	Accumulated Losses * \$'000	Total \$'000
Balance at 1 July 2015	66,604	(1,453)	(540)	1,562	1,052	(62,617)	4,608
Loss for the year						(28,554)	(28,554)
Other comprehensive income	-	(592)	-	-	-	-	(592)
Total Comprehensive Loss for the Year	-	(592)	-	-	-	(28,554)	(29,146)
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	47,437	-	-	-	-	-	47,437
Recognition of share-based payments	-	-	(1,106)	736	-	-	(370)
Balance at 30 June 2016	114,041	(2,045)	(1,646)	2,298	1,052	(91,171)	22,529
Loss for the year						(31,408)	(31,408)
Other comprehensive income	-	3,159	-	-	-	-	3,159
Total Comprehensive Loss for the Year	-	3,159	-	-	-	(31,408)	(28,249)
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	3,867	-	-	-	-	-	3,867
Recognition of share-based payments	-	-	105	274	-	-	379
Balance at 30 June 2017	117,908	1,114	(1,541)	2,572	1,052	(122,579)	(1,474)

The accompanying Notes form part of these Financial Statements.

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2017

15.4 Consolidated Statement of Cash Flows

	Note	2017 \$'000	2016 \$'000
Cash Flows from Operating Activities			
Receipts from customers		51,113	8,103
Interest received		24	301
Receipt from insurance claim		5,000	-
Payments to suppliers and employees (inclusive of GST)		(48,819)	(22,354)
Finance costs		(6,876)	(5,275)
Net Cash Flows from Operating Activities	10	442	(19,225)
Cash Flows from Investing Activities			
Receipt of security deposits		-	2
Receipt of Research and Development Incentive Program refund		-	1,166
Proceeds from sale of property, plant and equipment		-	1
Payments for exploration and evaluation		(488)	(821)
Payments for security deposits		-	(30)
Payments for mine development		-	(5,483)
Payments for property, plant and equipment		(11,640)	(37,090)
Net Cash Flows from Investing Activities		(12,128)	(42,255)
Cash Flows from Financing Activities			
Proceeds from issue of shares and other securities		-	22,004
Share issue costs		(11)	(1,870)
Proceeds from borrowings		28,220	31,425
Repayment of borrowings		(7,874)	(21,029)
Net Cash Flows from Financing Activities		20,335	30,530
Net (decrease)/increase in cash and cash equivalents		8,649	(30,950)
Cash and cash equivalents at the beginning of the year		2,500	33,790
Effect of exchange rate fluctuations on cash held		(493)	(340)
Cash and Cash Equivalents at the End of the Year	7(a)	10,656	2,500

The accompanying Notes form part of these Financial Statements.

For non-cash financing transactions refer to Note 10.

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BASIS OF PREPARATION

This Section of the financial report sets out the Group's (being MZI Resources Ltd and its controlled entities) accounting policies that relate to the Financial Statements as a whole. Where an accounting policy is specific to one Note, the policy is described in the Note to which it relates.

The Notes include information which is required to understand the Financial Statements and is material and relevant to the operations and the financial position and performance of the Group.

Information is considered relevant and material if:

- ▶ the amount is significant due to its size or nature
- ▶ the amount is important in understanding the results of the Group
- ▶ it helps to explain the impact of significant changes in the Group's business
- ▶ it relates to an aspect of the Group's operations that is important to its future performance

Note 1: Corporate Information

The consolidated financial report of MZI Resources Ltd for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 26 September 2017. The Board of Directors has the power to amend the Consolidated Financial Statements after issue.

MZI Resources Ltd (the "Company" or "MZI") is a for-profit company limited by shares whose shares are publicly traded on the Australian Securities Exchange. The Company and its subsidiaries were incorporated and domiciled in Australia. The registered office and principal place of business of the Company is Level 2, 100 Royal Street, East Perth, WA 6004.

The nature of the operations and principal activities of the Company are disclosed in the Directors' Report.

The amounts contained in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) pursuant to the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which this class order applies.

Note 2: Reporting Entity

The Financial Statements are for the Group consisting of MZI Resources Ltd and its subsidiaries. A list of the Group's subsidiaries is provided in Note 14.

Note 3: Basis of Preparation

These general purpose Financial Statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated Financial Statements of MZI Resources Ltd also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These Financial Statements have been prepared under the historical cost convention except for certain financial assets and liabilities which are required to be measured at fair value.

(a) Going Concern

The consolidated financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group held cash and cash equivalents as at balance date of \$10.656m and had a working capital deficit, inclusive of provisions and financial instruments, of \$41.749m. Current liabilities include the Additional Working Capital Facility of US\$21m provided by RCF. The Company is engaged in discussions with RCF in relation to the extension of the maturity date of this facility to align it with the expected completion of the refinancing initiative discussed in Section 4 of the Directors' report. For the year ended 30 June 2017, the Group incurred a loss after tax of \$31.408m and had a net liability of \$1.474m. Cash flows from operational activities were \$0.442m and were impacted by the continued ramp up of the project during the financial year and the failure of the original MFU which was replaced in Q4 of FY2017.

The Group has prepared a cash flow forecast for the life of the Keysbrook Project. The forecast at the Keysbrook Project subsidiary level is based on assumptions relating to heavy mineral prices, meeting budgeted production output, and achieving predicted operating costs and sales volumes. The Group forecast demonstrates the need for additional funding to provide the necessary working capital for the Company to deliver the higher throughput Operating Plan for the Keysbrook Project to be implemented during the year ended 30 June 2018 and to continue as a going concern. On 18 September 2017, the Company announced that major shareholder RCF had agreed to

provide further debt funding of US\$5.0m. Based on the assumptions in the cashflow forecast, these funds will provide sufficient working capital until the completion of the refinancing initiative in early 2018.

As a result of these matters there is a material uncertainty related to conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding these matters, the Directors believe that the Group will be able to secure funding sufficient to meet the requirements to continue as a going concern due to the Group's past successful fund raising activities which have comprised the sourcing of funds from both equity and debt providers.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(b) Basis of Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(c) Foreign Currency Translation

Functional and Presentation Currency

Both the functional and presentation currency of MZI is Australian Dollars. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that currency.

Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at balance date.

All translation differences relating to transactions and balances denominated in foreign currency are taken to the Consolidated Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

(d) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- ▶ when the GST incurred on a purchase of goods or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- ▶ receivables and payables are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

HOW NUMBERS ARE CALCULATED

This Section provides additional information about those individual line items in the Financial Statements that the directors consider most relevant in the context of the operations of the entity.

Note 4: Segment Reporting

(a) Identification of Reportable Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the projects of the Group. Discrete financial information about each of these operating businesses is reported to the Board of Directors on a monthly basis.

(b) Description of Projects

Tiwi Island Projects

This project consists of all the Group's projects located on the Tiwi Islands in the Northern Territory, including Lethbridge South, Lethbridge West and Kilimiraka.

Keysbrook Project

This project consists of the Keysbrook Project, located in the south-west of Western Australia.

Unallocated Items

Part of the following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- ▶ corporate expenses
- ▶ share-based payment expense

(c) Accounting Policies and Inter-segment Transactions

Inter-segment revenues are eliminated upon consolidation and reflected in the adjustments and eliminations column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believes would be inconsistent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

2017	Tiwi Island Projects \$'000	Keysbrook Project \$'000	Unallocated Corporate / Other \$'000	Consolidated \$'000
Segment revenue - external	-	39,612	-	39,612
Other revenue	-	12	12	24
Other income	-	5,003	-	5,003
Production Costs	-	(33,689)	-	(33,689)
Depreciation and amortisation	-	(11,279)	(203)	(11,482)
Other operating costs	(548)	(9,410)	-	(9,958)
Corporate expenses	-	(510)	(4,984)	(5,494)
Other expenses	(95)	(3,231)	-	(3,326)
Gain / (Loss) on foreign exchange	-	4,100	(93)	4,007
Fair value movements on financial instrument derivatives	-	(1,924)	-	(1,924)
Fair value movements on financial instrument embedded derivatives	-	2,147	-	2,147
Finance expenses	-	(15,561)	(767)	(16,328)
Segment results	(643)	(24,730)	6,035	(31,408)
Tax (expense)/benefit				-
Net loss after tax				(31,408)
Share-based payments	-	-	379	379
Segment assets	534	146,885	4,227	151,646
Segment liabilities	840	150,508	1,772	153,120
Capital expenditure	-	13,686	182	13,868

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

2016	Tiwi Island Projects \$'000	Keysbrook Project \$'000*	Unallocated Corporate / Other \$'000	Consolidated \$'000*
Segment revenue - external	-	17,346	-	17,346
Other revenue	-	4	20	24
Other income	-	-	272	272
Production Costs	-	(10,693)	-	(10,693)
Depreciation and amortisation	-	(8,277)	(213)	(8,490)
Other operating costs	(658)	(7,231)	-	(7,889)
Corporate expenses	-	(41)	(5,997)	(6,038)
Other expenses	(2,405)	(50)	-	(2,455)
Loss on foreign exchange	-	(8,376)	(1,376)	(9,752)
Fair value movements on financial instrument derivatives	-	12,327	(2,595)	9,732
Finance expenses	-	(7,739)	(2,872)	(10,611)
Segment results	(3,063)	(12,730)	(12,761)	(28,554)
Tax (expense)/benefit				-
Net loss after tax				(28,554)
Share-based payments	-	580	813	1,393
Segment assets	534	142,855	3,250	146,639
Segment liabilities	1,194	120,821	2,095	124,110
Capital expenditure	-	35,657	181	35,838

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Note 5: Revenue and Expenses

	30 Jun 17 \$'000	30 Jun 16 \$'000*
Sales revenue		
Leucoxene and zircon sales	39,612	17,346
Costs of production		
Production	31,955	9,898
Shipping	1,734	795
	33,689	10,693
Depreciation and amortisation		
Depreciation	8,669	4,735
Amortisation	2,610	3,542
	11,279	8,277
Other operating costs relating to sales		
Care and maintenance	(54)	-
Royalties and landowner payments	1,149	178
Operational support costs	8,863	7,711
	9,958	7,889
Other revenue		
Interest income	24	24
	24	24
Other income		
Insurance proceeds received	5,000	-
Sundry income	3	272
	5,003	272
Corporate expenses		
Audit and review fees	128	130
Consulting fees	476	426
Travel and accommodation	111	99
Occupancy costs	384	356
Share-based payments - employee benefits	379	813
Salaries and wages	3,034	3,145
Depreciation of non-mine assets	203	213
Other	523	596
Directors' fees	459	473
	5,697	6,251
Other expenses		
Rehabilitation - non operating mine sites	-	616
Asset written off	3,200	1
Impairment of exploration and evaluation	126	1,838
	3,326	2,455
Loss on foreign exchange		
Net (gain) / loss on foreign exchange	(4,007)	9,752
	(4,007)	9,752
Fair value movements on financial instrument derivatives		
Fair value movement on contractual derivatives – (gain) / loss	1,870	
Realised movement on currency hedges – loss / (gain)	54	-
	1,924	-
Fair value movements on financial instrument embedded derivatives		
Fair value movement on loan derivatives – (gain) / loss	(2,147)	(9,732)
Finance expenses		
Interest and fees on borrowings	16,328	10,611

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue is recognised as the interest accrues using the effective interest rate method (which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Revenue from the sale of product is recognised when the product is suitable for delivery, has been dispatched to the customer and is no longer under the physical control of the Group. This is the bill of lading date.

Note 6: Income Tax

The prima facie income tax expense on pre-tax accounting losses from continuing operations reconciles to the income tax expense in the Financial Statements as follows:

	30 Jun 17 \$'000	30 Jun 16 \$'000*
Loss before income tax	(31,408)	(28,554)
Income tax benefit calculated at 30%	(9,421)	(8,566)
Tax effect of:		
Non-deductible expenses	6	1,922
Non-deductible interest	1,056	1,064
Non-deductible share-based payments	1,245	939
Exploration expenditure write offs	120	551
Assessable income not included	(16)	-
Deferred tax assets not recognised	7,010	4,090
Income tax benefit attributable to loss before tax	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

Deferred tax assets comprise:

	30 Jun 17 \$'000	30 Jun 16 \$'000*
Tax losses carried forward	4,941	4,227
Provision for site restoration	2,786	1,834
Employee provisions	186	322
Accrued expenses	78	99
Borrowing costs	986	1,543
Unrealised gains/losses	359	-
Share issue/business related costs	373	519
Embedded derivatives	1,156	1,307
Unrealised loss in Other Comprehensive Income	334	615
	11,199	10,466
Set off of deferred tax liabilities	(11,199)	(10,466)
Net deferred tax assets	-	-

Unused tax losses for which no deferred tax asset has been recognised is \$15.193m (2016: \$7.951m*).

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

Deferred tax liabilities comprise:

	30 Jun 17 \$'000	30 Jun 16 \$'000*
Convertible loan	1,278	1,774
Fuel tax credit receivable	33	-
Unrealised foreign exchange	945	-
Inventory	72	-
Prepayments	24	17
Capitalised exploration costs	266	184
Depreciable assets	4,351	7,036
Mining assets	3,768	1,370
Treasury shares	462	85
Total	11,199	10,466

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

(a) Tax Consolidation

MZI and its wholly owned Australian controlled entities implemented the tax consolidated legislation on 1 July 2013. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement, which limits the joint and several liability of the wholly owned entities in the case of default by the head entity, MZI Resources Ltd.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate MZI Resources Ltd (the head entity) for any current tax payable assumed and are compensated by MZI Resources Ltd for any current tax receivable. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities Financial Statements. The head entity and controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

(b) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated Financial Statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences or losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the head entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Note 7: Financial Assets and Liabilities

(a) Cash and Cash Equivalents

	30 Jun 17 \$'000	30 Jun 16 \$'000
Cash at bank	10,656	2,500

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Cash in the Consolidated Statement of Financial Position comprises cash at bank and in hand.

For the purposes of the Consolidated Statement of Cash Flows, cash includes cash on hand and in banks, as defined above (and money market investments readily convertible to cash on hand), net of outstanding bank overdrafts.

(b) Trade and Other Receivables

	30 Jun 17 \$'000	30 Jun 16 \$'000
Current		
Trade receivables	-	10,247
Other receivables	657	463
	657	10,710
Non-Current		
Security deposits (i)	682	682

(i) Includes security deposits of \$0.565m that have been lodged with the Department of Mines and Energy, Northern Territory. These deposits are unsecured and accrue no interest (2016: \$0.565m).

The aging analysis of current trade and other receivables are as follows:

	30 Jun 17 \$'000	30 Jun 16 \$'000
0-30 days	657	10,710

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables, which generally have 30 to 90 day terms, are recognised and carried at original invoice amount less an allowance for uncollectible debts. An estimate of the allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. For the non-current receivables, the fair values are assumed to be their carrying amount.

(c) Other Financial Assets

	30 Jun 17 \$'000	30 Jun 16 \$'000
Current		
Other financial assets (i)	645	265
Cash flow hedges (ii)	936	-
	1,581	265
Non-Current		
Cash flow hedges (ii)	155	-

(i) Other Financial Assets

Refer to Note 7(f) for details of embedded derivative associated with the L88 contract. The Group classifies its financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement in the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial assets at initial recognition.

(ii) Cash Flow Hedges

Derivative financial instruments are recorded at fair value on the Consolidated Statement of Financial Position and are classified based on contractual maturity. Derivative instruments are classified as either hedges of the fair value of recognised assets or liabilities or of firm commitments ("fair value hedges"), hedges of highly probable forecast transactions ("cash flow hedges") or non-hedge derivatives. Derivatives designated as either a fair value or cash flow hedge that are expected to be highly effective in achieving offsetting changes in fair value or cash flows are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability or firm commitment that is attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised in profit or loss. Amounts accumulated in equity are transferred to profit or loss in the period when the forecasted transaction impacts earnings. When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial carrying amount of the asset or liability.

When a derivative designated as a cash flow hedge expires or is sold and the forecast transaction is still expected to occur, any cumulative gain or loss relating to the derivative that is recorded in equity at that time remains in equity and is recognised in profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to profit or loss.

Certain derivatives do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit or loss.

During the year ended 30 June 2017, the Group entered into cash flow hedges of loan proceeds and future sales in US dollars. In addition, the Group entered into a cash flow hedge of variability in the amount of the highly probable interest payments due to anticipated movements in the underlying interest rates relating to the US dollar denominated debt obligations.

The terms of the cash flow hedges match the terms of the expected highly probable forecast transactions. As a result, no hedge ineffectiveness arose during the year, requiring recognition through profit or loss. A net unrealised gain of \$1.114m (2016: Loss of \$1.412m) relating to the valuation of the hedging instruments at 30 June 2017 was included in other comprehensive income.

The following table details the forward foreign currency contracts to sell US dollars forward outstanding at reporting date:

	Notional amounts US\$		Weighted average A\$:US\$ exchange rate		Fair Value	
	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
1 - 2 years	31,174	36,750	0.7451	0.7516	1,114	(1,795)

The interest rate swap agreement entered into for a notional amount of US\$12.985m allows the Group to receive a fixed rate of 1.39% and pays interest at a variable rate equal to the US dollar LIBOR BBA rate. The interest rate swap settles on a quarterly basis. The fair value of the interest rate swap in place at 30 June 2017 is \$0.024m (2016: \$0.250m).

(d) Other Assets

	30 Jun 17 \$'000	30 Jun 16 \$'000
Prepayments	954	922

(e) Trade and Other Payables

	30 Jun 17 \$'000	30 Jun 16 \$'000
Trade payables	7,067	5,308
Interest and finance payables	1,672	983
Other payables	488	196
Total	9,227	6,487

Trade creditors, accruals and sundry payables are non-interest bearing and are normally settled on 30 day terms.

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid and accrued interest on financing arrangements.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(f) Other Financial Liabilities

	30 Jun 17 \$'000	30 Jun 16 \$'000*
Current		
Other financial liabilities (i)	110	910
Embedded derivatives (iii)	2,211	4,358
Cash flow hedges	-	1,951
Total	2,321	7,219
Non-current		
Other financial liabilities (i)	225	235
Embedded derivative (ii)	3,379	-
Cash flow hedges	-	94
Total	3,604	329

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

(i) Other Financial Liabilities

Attract interest at 4.5% per annum and are subject to contractual payment dates.

(ii) Embedded Derivatives – L88

During the year ended 30 June 2017, the Leucoxene 88 ("L88") offtake agreement with a third party, entered into in the prior year, continued. The offtake contract is a 5 year agreement and includes a yearly price adjustment mechanism.

At inception of the contract, the fair value of the embedded derivative associated with the L88 contract was nil. At 30 June 2017, the fair value of the embedded derivative associated with the L88 contract was a current financial asset of \$0.645m and a non-current financial liability of \$3.379m (2016: Asset \$0.265m).

The fair value of the embedded derivative associated with the L88 contract is valued by discounting over the life of the contract the time value of cash receipts that are greater than the contractual revenue in the first two years and less the contractual revenue in the final two years. The discount rate used is 10%. The forecast revenue price is based on independent price forecasts against the Group's forecast sales volumes of L88.

(iii) Embedded derivatives - Finance Facilities

During the prior year ended 30 June 2016, the option associated with the Convertible Loan facility was determined to have expired and accordingly the embedded derivative was derecognised. The Company has subsequently identified this treatment as incorrect and restated prior year comparatives to reflect the correct values. Refer to Note 18 for more detail on prior year restatements.

At 30 June 2017, the fair value of the embedded derivative associated with the Convertible Loan facility has a fair value of \$1.204m (2016: \$4.142m).

During the year ended 30 June 2017, the US\$8.000m in Bridge Finance facilities automatically converted to a new convertible loan facility as the option to repay the loan at the 12 month anniversary from drawdown was not exercised by the Company.

At 30 June 2017, the fair value of the embedded derivatives associated with the Bridge Finance facilities was \$1.007m (2016: \$0.216m).

The Convertible Loan facilities are provided under an agreement with Resource Capital Fund VI L.P ("RCF"). Refer to Note 7(g) for terms and conditions of the facilities.

The fair value of the embedded derivatives associated with the Bridge Finance facilities are valued using a Monte Carlo option pricing model that takes into account the exercise price, the underlying spot price, the term of the facilities, non-tradeable nature of the facilities, the expected share price volatility of the underlying share, forward exchange rates and the risk-free rate for the term of the facilities.

The table below summarises the model inputs for the embedded derivatives associated with the Convertible Loan facility and Bridge Finance facilities as at 30 June 2017.

	Convertible Loan Facility	Bridge Facility A	Bridge Facility B
Underlying security spot price at valuation date	\$0.20	\$0.20	\$0.20
Exercise price	\$0.40	\$0.40	\$0.40
Valuation date	30 June 17	30 June 17	30 June 17
Term remaining (years)	1.88	2.93	2.93
Expected volatility of Company's shares	60%	60%	60%
Risk-free rate	1.78%	1.78%	1.78%
Exchange rate	0.769	0.769	0.769
Forward rate	0.760961	0.756038	0.756038
Number of options	58,165,300	11,079,105	13,126,805
Valuation per option	\$0.020	\$0.036	\$0.045

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurements hierarchy:

- ▶ level 1 – the fair value is calculated using quoted prices in an active market
- ▶ level 2 – the fair value is estimated using inputs other than quoted prices included in the Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- ▶ level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data

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The following table represent the Group's financial instruments measured and recognised at fair value at 30 June 2017 on a recurring basis:

2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Foreign currency hedging contracts	-	1,114		1,114
Embedded derivative associated with L88 Contract	-	-	645	645
Financial liabilities				
Embedded derivative associated with L88 Contract	-	-	3,379	3,379
Embedded derivative associated with Convertible Loan	-	-	1,204	1,204
Embedded derivative associated with Bridge Finance Facilities	-	-	1,007	1,007
Interest rate swap	-	24	-	24

2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Embedded derivative associated with L88 Contract	-	-	265	265
Financial liabilities				
Foreign currency hedging contracts	-	1,795	-	1,795
Embedded derivative associated with Convertible Loan	-	4,142	-	4,142
Embedded derivative associated with Bridge Finance Facilities	-	216	-	216
Interest rate swap	-	250	-	250

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- ▶ The use of quoted market prices for similar instruments;
- ▶ The fair value of the foreign currency forwards and interest rate swaps is determined using forward exchange rate and interest rates at the balance sheet date; and
- ▶ Other techniques, such as Black Scholes and Monte Carlo valuation models.

The following table presents the changes in Level 3 items for the periods ended 30 June 2016 and 30 June 2017:

	Embedded Financial Derivatives	Embedded Contractual Derivatives
Opening Balance 1 July 2015	-	-
(Gains) / Losses recognised as fair value movements	-	265
Closing Balance 30 June 2016	-	265
Transfer from Level 2	(4,358)	-
(Gains) / Losses recognised as fair value movements	2,147	(2,999)
Closing Balance 30 June 2017	(2,211)	(2,734)

(g) Loans and Borrowings

	30 Jun 17 \$'000	30 Jun 16 \$'000
Current		
Bank loan (i)	242	161
Insurance premium funding (v)	340	332
Working capital facility (viii)	3,900	4,087
Hire purchase (v)	3,756	3,265
Other party settlement (vi)	349	615
Other party loan 1 (ii)	1,100	600
Other party loan 2 (iii)	200	50
Other party loan 3 (iv)	400	-
Additional Working Capital loan (vii)	28,972	-
Senior facility (viii)	6,500	2,693
Total	45,759	11,803
Non-Current		
Bank loan (i)	322	564
Other party loan 1 (ii)	4,642	5,760
Other party loan 2 (iii)	755	952
Other party loan 3 (iv)	625	-
Bridge facility (vii)	9,898	10,181
Convertible loan (vii)	20,858	19,203
Senior facility (viii)	39,652	47,805
Hire purchase (v)	5,498	8,597
Total	82,250	93,062

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(i) Bank Loan

On 12 November 2014, the Company entered into an agreement with National Australia Bank to extend the repayment date of the flexible interest rate bank loan facility to 30 November 2019. The loan was interest only to 31 October 2016 with principal repayments commencing thereafter for a period of 36 months. The current interest rate is 6.450% per annum.

This loan is secured by a mortgage over Lot 112 Westcott Road, Keysbrook WA. The carrying amount of assets pledged as security for this bank loan is \$0.825m.

(ii) Other Party Loan 1

On 5 November 2014, the Group entered into an agreement with a third party to purchase Lot 62 Hopeland Road, North Dandalup WA. The loan is repayable in fixed quarterly instalments, with a final repayment date of 5 November 2019. Interest is charged at 4.5% per annum.

The loan is secured by a mortgage granted over Lot 62 Hopeland Road, North Dandalup WA. The carrying amount of assets pledged as security for this loan is \$9.986m.

(iii) Other Party Loan 2

On 9 October 2015, the Group entered into an agreement with a third party to purchase Lot 104 Westcott Road, Keysbrook WA. The loan is repayable in fixed instalments, with a final repayment date of 30 June 2020. Interest is charged at 5.00% per annum.

The loan is secured by a mortgage granted over Lot 104 Westcott Road, Keysbrook WA. The carrying amount of assets pledged as security for this loan is \$2.410 m.

(iv) Other Party Loan 3

On 4 November 2016, the Group entered into an agreement with a third party to purchase Lot 101 Westcott Road, Keysbrook WA. The loan is repayable in three fixed instalments with final repayment date of 30 June 2019. Interest on the loan is charged at 4.5% per annum.

The loan is secured by a mortgage granted over Lot 101 Westcott Road, Keysbrook WA. The carrying value of assets pledged as security for this loan is \$2.133m.

(v) Hire Purchase and Insurance Premium Funding

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in short-term and long-term payables. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against Statement of Comprehensive Income.

Finance leased assets are depreciated on a straight line basis over the estimated useful life of the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases in accordance with current accounting standards. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

The Group entered into a hire purchase agreement with Komatsu Corporate Finance Pty Ltd ("Komatsu") for the financing of the mining feed unit which is being utilised at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires on 30 September 2019. MZI has provided an unsecured Parent entity guarantee to Komatsu in relation to this finance liability. The balance of the hire purchase liability at 30 June 2017 is \$2.711m (2016: \$3.814m).

The Group has entered into an additional hire purchase agreement with Komatsu for the purchase of the mining fleet and equipment which is being used at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires in July 2020. MZI has provided an unsecured Parent entity guarantee to Komatsu in relation to this finance facility. The balance of the hire purchase liability at 30 June 2017 is \$5.147m (2016: \$7.001m).

The Group has entered into a hire purchase agreement with Toyota Finance Australia Limited for the financing of vehicles for utilisation at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expire between July 2019 and February 2021. The balance of the hire purchase liability at 30 June 2017 is \$0.436m (2016: \$0.405m).

The Group has entered into a hire purchase agreement with Fleetwood Pty Ltd for the financing of the site offices at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires on 30 September 2020. The balance of the hire purchase liability at 30 June 2017 is \$0.240m (2016: \$0.306m).

The Group has entered into a hire purchase agreement with SNF Australia Pty Ltd for the financing of the flocculant plant at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires on 30 April 2021. The balance of the hire purchase liability at 30 June 2017 is \$0.270m (2016: \$0.336m).

The Group has entered into a hire purchase agreement with Allightsykes Pty Ltd for the financing of lighting towers at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires on 31 October 2018. The balance of the hire purchase liability at 30 June 2017 is \$0.070m (2016: \$0.118m).

The Group has entered into a hire purchase agreement with Rakkan Pty Ltd for the financing of a site administration facility at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires on 31 March 2019. The balance of the hire purchase liability at 30 June 2017 is \$0.380m.

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The Group has entered into a funding arrangement to fund the Group's insurance premiums. Monthly instalments are required under the terms of the contract which expires 31 December 2017. The balance of the premium funded liability at 30 June 2017 is \$0.340m (2016: \$0.332m).

Future minimum required payments under this funding arrangement as at 30 June are as follows:

	30 Jun 17 \$'000	30 Jun 16 \$'000
Not later than one year	4,542	4,162
Later than one year but not later than five years	5,716	9,168
Total minimum lease payments	10,258	13,330
Less finance charges	(664)	(1,136)
Present value of minimum lease payments	9,594	12,194

(vi) Other party settlement

Amounts comprising this sales debt are unsecured and non-interest bearing. This amount is subject to a binding agreement which requires repayment at 5% of the value of each shipment of zircon concentrate produced from the Keysbrook Project. During the year ended 30 June 2017, the Group entered into a Variation to the Settlement Deed with Tricoastal which allowed the Group to defer the repayment date of its US\$268,510 debt to Tricoastal from 31 March 2016 to no later than 31 March 2018. All other terms remain unchanged

Refer to Note 19(b) for related parties disclosure.

(vii) Convertible Loan, Bridge Facility and Additional Working Capital Loan

On 12 November 2014, the Group entered into a Facility Agreement with Resource Capital Fund VI L.P. ("RCF"). The facilities provided by this agreement comprise a US\$21.0m Convertible Loan facility, US\$8.0m in Bridge Finance facilities, US\$21m in Additional Working Capital and a further package of facilities that have been utilised and repaid in prior years. The key terms of facilities outstanding as at 30 June 2017 are as follows:

Convertible Loan Facility:

- ▶ interest at 10% per annum, payable quarterly in arrears, in cash or shares
- ▶ final repayment date of 26 May 2019
- ▶ convertible at RCF's election any time before the final repayment date on a conversion formula

Bridge Finance Facilities:

- ▶ interest at 10% per annum, payable quarterly in arrears, in cash or shares
- ▶ facilities have passed their first initial payment date and converted to a convertible loan during the year ended 30 June 2017
- ▶ the convertible loan facility has a final repayment date of 5 June 2020 and is convertible at RCF's election at any time before the final repayment date on a conversion formula

Additional Working Capital Facility:

- ▶ interest charged at 10% per annum with interest accrued and capitalized on a quarterly basis
- ▶ interest is repayable in arrears on the final repayment date
- ▶ the final repayment date for the facility is 1 December 2017

As at 30 June 2017, the Convertible Loan facility, Debt Service Reserve Bridge facility, Cost Overrun Bridge facility and the Additional Working Capital Facility were fully drawn.

Refer to Note 19(b) for related parties disclosure.

(viii) Senior Facility Agreement:

- ▶ On 12 November 2014, the Group entered into a Senior Facility Agreement with RMB Resources Limited ("RMB"). These facilities comprise a US\$37.5m Senior Debt facility, a US\$3.0m Working Capital Debt facility and an \$11.5m Bank Guarantee facility.
- ▶ On 29 June 2016, the Senior Facility Agreement was restructured with the following key terms:

Senior Debt Facility:

- ▶ Interest at a margin of 5.85% per annum above the US\$ LIBOR 3-month rate pre Keysbrook Project completion and a margin of 5.35% post Keysbrook Project completion, payable quarterly in arrears
- ▶ Repayments are required quarterly in accordance with a fixed repayment profile
- ▶ A mandatory prepayment of the principal outstanding at each quarter end of 50% of free cash is required until the Senior Debt facility is reduced to zero
- ▶ The facility terminates on 31 December 2021

Working Capital Debt facility:

- ▶ interest at a margin of 5.35% per annum above the US\$ LIBOR 3-month rate, payable quarterly in arrears
- ▶ available from the commencement of mining ore and production of heavy mineral concentrate from the Wet Concentrator Plant at Keysbrook
- ▶ terminates on 31 December 2021

Contingent Instrument Facility:

- ▶ fee payable at 3.00% per annum on the value of the facility utilised, payable quarterly in arrears
- ▶ available for the West Australian Environmental Protection Agency approvals, landowner agreements and the Western Power connection agreement if ever required
- ▶ terminates on 31 December 2021

As at 30 June 2017, the Senior Debt facility and Working Capital Debt facility were fully drawn and \$8.099m was utilised under the Contingent facility.

(ix) Security on RMB and RCF Facilities

The RMB and RCF facilities are secured under a Security Trust arrangement and a Priority Deed exists between the parties. The details of the security are below:

- ▶ fixed and floating charge over all the Group's assets other than Lot 104 and 112 Westcott Road, Keysbrook WA and Lot 62 Hopeland Road, North Dandalup WA
- ▶ mortgage granted by the Company over Lot 202 Elliott Road, Keysbrook WA
- ▶ share mortgage granted by the Company over all its shares in Keysbrook Leucoxene Pty Ltd and NT Exploration Pty Ltd

The carrying amount of assets pledged as security for these facilities is \$142.867m.

A Common Terms Agreement governs the RMB and RCF facilities and includes financial covenants that the Group must comply with. During the financial year ended 30 June 2017, the Company received waivers, which are effective until 30 September 2018, from RMB in relation to the following covenants:

- ▶ the maintenance of the Debt Service Reserve Account
- ▶ the transfer of funds between Keysbrook Leucoxene Pty Ltd and MZI Resources Ltd
- ▶ the maintenance of a liquidity buffer
- ▶ the satisfaction of the completion date

With the exception of the matters noted above, all other financial covenants have been complied with in accordance with the Common Terms Agreement.

Financial Liabilities Carried at Amortised Cost

The fair value of financial liabilities carried at amortised cost approximates their carrying values.

Note 8: Non-Financial Assets and Liabilities

(a) Inventories

	30 Jun 17 \$'000	30 Jun 16 \$'000
Heavy mineral concentrate and other intermediate stockpiles - at cost	62	1,385
Heavy mineral concentrate and other intermediate stockpiles - at NRV	3,572	1,827
Finished goods stockpiles - at NRV	223	462
Stores and consumables - at cost	877	553
Total	4,734	4,227

Inventories are stated at the lower of cost and net realisable value ("NRV"). Cost comprises direct materials, direct labour and a proportion of indirect overhead expenditure allocated on the basis of relevant operating capacity.

Costs are assigned to individual items of inventory on the basis of weighed average cost. Costs of purchased inventory are determined after deducting applicable rebates and discounts.

NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and to make the sale.

The NRV write-down for the year was \$0.924m (2016: \$0.394m).

(b) Property, Plant and Equipment

	Land \$'000	Site Plant & Equipment \$'000	Office Equipment \$'000	Plant & Equipment Under Lease \$'000	Work in Progress \$'000	Total \$'000
At 1 July 2016 net of accumulated depreciation	14,884	58,492	377	11,984	674	86,411
Additions	2,564	-	182	795	10,327	13,868
Transfer between asset classes	-	11,001	-	-	(11,001)	-
Asset written off (i)	-	-	-	(3,200)	-	(3,200)
Depreciation charge for the year	-	(6,647)	(205)	(2,017)	-	(8,869)
At 30 June 2017 net of accumulated depreciation	17,448	62,846	354	7,562	-	88,210
At 30 June 2017						
Cost	17,448	72,587	1,136	10,652	-	101,823
Accumulated depreciation	-	(9,741)	(782)	(3,090)	-	(13,613)
Net carrying amount	17,448	62,846	354	7,562	-	88,210

- (i) During the year ended 30 June 2017, the Company wrote off the carrying value of a defective mining field unit and settled a compensation claim with insurers for the asset and disruption of business operations resulting from the defective asset.

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	Land \$'000	Site Plant & Equipment \$'000	Office Equipment \$'000	Plant & Equipment Under Lease \$'000	Work in Progress \$'000	Total \$'000
At 1 July 2015 net of accumulated depreciation	12,175	106	373	391	46,593	59,638
Additions	2,709	-	181	13,228	15,604	31,722
Transfer between asset classes	-	61,523	-	-	(61,523)	-
Disposal	-	-	(1)	-	-	(1)
Depreciation charge for the year	-	(3,137)	(176)	(1,635)	-	(4,948)
At 30 June 2016 net of accumulated depreciation	14,884	58,492	377	11,984	674	86,411
At 30 June 2016						
Cost	14,884	61,765	954	13,619	674	91,896
Accumulated depreciation	-	(3,273)	(577)	(1,635)	-	(5,485)
Net carrying amount	14,884	58,492	377	11,984	674	86,411

Refer to Note 7(g) for details of assets held as security.

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment loss. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

Depreciation is provided on a straight line or units of production basis on all plant and equipment. Major depreciation periods are:

- ▶ plant and equipment - 1-12 years
- ▶ motor vehicles - 3-5 years

Land represents lots at Keysbrook which the Group has acquired.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised. No impairment loss has been recognised in relation to property, plant and equipment in the year ending 30 June 2017.

(c) Exploration and Evaluation Expenditure

	30 Jun 17 \$'000	30 Jun 16 \$'000
Opening balance	615	1,639
Exploration expenditure incurred	397	814
Impairment loss	(126)	(1,838)
Closing balance	886	615

The ultimate recoupment of costs carried forward for areas of interest in the exploration and evaluation phases is dependent upon the successful development and commercial exploitation, or sale, of the respective areas of interest. For areas which do not meet the criteria of the accounting policy below those amounts are charged to the Consolidated Statement of Comprehensive Income.

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Exploration and evaluation expenditure for each area of interest is written off as incurred, except that it may be carried forward provided that one of the following conditions is met:

- ▶ such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale
- ▶ exploration activities in the area of interest have not, at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves

Exploration and evaluation expenditure which no longer satisfies the above policy is written off. In addition, an impairment allowance is raised against any exploration expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable under the above policy. The increase in the impairment allowance is charged against the Consolidated Statement of Comprehensive Income for the year.

When an area of interest is abandoned, any expenditure carried forward in respect of that area of interest is written off in the year in which the decision to abandon is made.

Expenditure is not carried forward in respect of any area of interest unless the Group's right of tenure to that area of interest are current.

During the year ended 30 June 2017, the carrying value of some tenements held were reviewed and assessed as non-recoverable under the Group's policy. An amount of \$0.126m (2016 \$1.838m) has been recognised in the Statement of Comprehensive Income.

(d) Mine Development Expenditure

	30 Jun 17 \$'000	30 Jun 16 \$'000
Opening balance	42,352	34,878
Research and Development Incentive Program refund	-	(1,166)
Adjustments to rehabilitation and restoration provision	3,389	3,168
Capitalised borrowing costs	-	4,898
Additions	-	4,116
Amortisation	(2,610)	(3,542)
Closing Balance	43,131	42,352

Mine development expenditure represents the costs incurred in preparing mines for commissioning and production, and also includes other directly attributable costs incurred before production commences. These costs are capitalised to the extent they are expected to be recouped through successful exploitation of the related mining project. Once production commences, these costs are amortised over the estimated economic life of the mine on a units of production basis. The development costs are written off if the mine property is abandoned. Development costs incurred to maintain production are expensed as incurred against the related production.

Any rebate received for eligible Research and Development ("R&D") activities are offset against the area where the costs were initially incurred. For R&D expenditure that has been capitalised, any claim received will be offset against Mine development expenditure in the Consolidated Statement of Financial Position.

At each reporting date, the entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash generating unit.

(e) Provisions

	30 Jun 17 \$'000	30 Jun 16 \$'000
Current		
Annual leave	621	800
Long service leave	-	274
Payroll tax	52	67
Site restoration (i)	2,351	86
Total	3,024	1,227
Non-Current		
Long service leave	-	-
Site restoration (i)	6,935	6,028
Total	6,935	6,028

(i) Site restoration

	30 Jun 17 \$'000	30 Jun 16 \$'000
Opening balance	6,114	3,364
Rehabilitation and restoration provision accretion	202	62
Change in scope of restoration provision	3,389	3,785
Utilised during the year	(419)	(1,097)
Closing balance	9,286	6,114

The nature of restoration activities includes dismantling and removing plant structures, rehabilitating remaining mined areas including restoration, reclamation and revegetation of affected areas.

Typically the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. Additional disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

The Group is required to decommission and rehabilitate mines and processing sites, to the extent that an environmental disturbance has occurred, to a condition acceptable to the relevant authorities.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period.

The amount of the provision for future rehabilitation costs is capitalised and is depreciated in accordance with the policy set out in Note 8(e). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability – 2017: 2.960% (2016: 2.310%). The increase in the provision resulting from the passage of time is recognised in finance costs.

(ii) Employee Entitlements

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave and long service leave and any other benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on high quality corporate bonds, which have terms to maturity approximating the terms of the related liabilities, are used.

Note 9: Equity

(a) Issued Capital

Issued share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised, net of tax, directly in equity as a reduction of the share proceeds received.

Ordinary shares entitle the holder to participate in dividends in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll, each share is entitled to one vote.

Refer to Note 20 for details of the employee share schemes.

Ordinary shares on issue

	30 Jun 17 \$'000	30 Jun 16 \$'000
218,082,824 (2016: 203,841,970) ordinary fully paid shares	117,908	114,041

Movements in ordinary share capital

	No. of Shares	\$'000
Issued shares:		
At 1 July 2015	79,030,110	66,604
Shares issued pursuant to a Facility Agreement (i)	13,136,469	4,809
Share placement (ii)	8,723,203	3,489
Share placement (iii)	66,985,621	26,794
Share placement (iv)	31,128,557	12,451
Shares issued pursuant to an Employee Share Trust Plan (v)	4,388,826	1,764
Shares issued in respect of Employee Performance Rights (ii)	449,184	-
Share issue costs	-	(1,870)
As at 30 June 2016	203,841,970	114,041
At 1 July 2016	203,841,970	114,041
Shares issued pursuant to a Facility Agreement (vi)	14,240,854	3,877
Share issue costs	-	(10)
As at 30 June 2017	218,082,824	117,908

- (i) Shares issued pursuant to a Facility Agreement as consideration for interest and commitment fees.
- (ii) Shares issued pursuant to an Employee Incentive Plan, approved by shareholders at a general meeting on 12 November 2012.
- (iii) Share placement to sophisticated investors on 3 November 2015 and 1 December 2015.
- (iv) Share placement to sophisticated investors on 24 February 2016.
- (v) Shares issued pursuant to an Employee Share Trust Plan, approved by shareholders at a general meeting on 26 November 2013.
- (vi) Shares issued pursuant to a Facility Agreement as consideration for interest.

(b) Nature and Purpose of Reserves

The share-based payments reserve represents the value of equity benefits provided to Directors and employees as part of their remuneration and the value of services provided to the Group paid for by the issue of equity.

The employee share trust reserve consists of treasury shares held in trust for employees of the Group.

The cash flow hedge reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in the Statement of Other Comprehensive Income, as described in Note 7. Amounts are reclassified to profit or loss when the forecast transaction impacts earnings.

The option reserve represents the value of listed options previously issued by the Group.

Note 10: Cash Flow Information

Reconciliation of loss after income tax for the year to net cash flows from operations:

	30 Jun 17 \$'000	30 Jun 16 \$'000 *restated
Loss after tax	(31,408)	(28,554)
Depreciation and amortisation	11,482	8,490
Foreign currency (gain)/loss	(3,998)	(40)
Non cash borrowing costs (i)	7,216	3,310
Impairment of non-current assets	126	1,838
Exploration and evaluation	488	-
Share-based payments	379	2,997
Disposal of assets	3,200	1
Other	-	242
Changes in operating asset and liabilities:		
(Increase)/decrease in receivables	11,252	(8,669)
(Increase)/decrease in inventories	(506)	(4,160)
(Increase)/decrease in prepayments	(32)	(512)
Increase/(decrease) in trade and other payables	3,112	5,774
Increase/(decrease) in provisions	(869)	58
Net cash flows from operating activities	442	(19,225)

(i) Non-cash investing and financing activities

	30 Jun 17 \$'000	30 Jun 16 \$'000
Interest and facility fees settled in shares	3,865	3,310
Other non-cash financing costs	3,351	-
Total	7,216	3,310

During the year ended 30 June 2017, the following non cash financing transactions occurred:

- ▶ On 6 July 2016, the Company issued 3,793,731 fully paid ordinary shares at an issue price of \$0.2570 per share to RCF for payment of interest and commitment fees for the June 2016 quarter, associated with the Keysbrook finance facilities.
- ▶ On 7 October 2016, the Company issued 2,809,084 fully paid ordinary shares at an issue price of \$0.3397 per share to RCF for payment of interest and commitment fees for the September 2016 quarter, associated with the Keysbrook finance facilities.
- ▶ On 9 January 2017, the Company issued 3,515,960 fully paid ordinary shares at an issue price of \$0.2878 per share to RCF for payment of interest for the December 2016 quarter, associated with the Keysbrook finance facilities.
- ▶ On 7 April 2017, the Company issued 4,122,079 fully paid ordinary shares at an issue price of \$0.2270 per share to RCF for payment of interest for the March 2017 quarter, associated with the Keysbrook finance facilities.

During the year ended 30 June 2016, the following non cash financing transactions occurred:

- ▶ On 6 October 2015, the Company issued 4,937,923 fully paid ordinary shares at an issue price of \$0.3993 per share to RCF for payment of interest and commitment fees for the September 2015 quarter, associated with the Keysbrook finance facilities.
- ▶ On 1 December 2015, the Company issued 20,700,000 fully paid ordinary shares at an issue price \$0.40 per share to RCF for partial repayment of the bridge finance facilities.
- ▶ On 8 December 2015, the Company issued 976,882 fully paid ordinary shares at an issue price of \$0.4037 per share to RCF for satisfaction of interest due in respect of a bridge finance facility.
- ▶ On 7 January 2016, the Company issued 3,646,902 fully paid ordinary shares at an issue price of \$0.3588 per share to RCF for payment of interest and commitment fees for the December 2015 quarter, associated with the Keysbrook finance facilities.
- ▶ On 24 February 2016, the Company issued 31,128,557 fully paid ordinary shares at an issue price \$0.40 per share to RCF for full repayment of the bridge finance facilities.
- ▶ On 2 March 2016, the Company issued 586,195 fully paid ordinary shares at an issue price of \$0.3090 per share to RCF for satisfaction of interest due in respect of a bridge finance facility.
- ▶ On 7 April 2016, the Company issued 2,988,567 fully paid ordinary shares at an issue price of \$0.3190 per share to RCF for payment of interest and commitment fees for the March 2016 quarter, associated with the Keysbrook finance facilities.

RISK

This Section of the Notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

Note 11: Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future in applying its accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods affected.

(a) Impairment of Property, Plant and Equipment

In accordance with the Group's accounting policy set out in Note 8, non-current assets are assessed for impairment when there is an indication that their carrying amount may not be recoverable. The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs of disposal estimated on the basis of discounted present value of the future cash flows (a level 3 fair value estimation method).

The estimates of discounted future cash flows for each CGU are based on significant assumptions including:

- ▶ estimates of the quantities of mineral reserves and ore resources for which there is a high degree of confidence of economic extraction and the timing of access to these reserves and ore resources:
- ▶ future production levels and the ability to sell that production
- ▶ future product prices based on the Group's assessment of forecast short and long term prices for each of the key products
- ▶ future exchange rates for the Australian dollar compared to the US dollar using external forecasts by recognised economic forecasters
- ▶ future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure
- ▶ the asset specific discount rate applicable to the CGU

(b) Impairment of Exploration and Evaluation Expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related area of interest itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of reserves and resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if rights to tenure of the area of interest are current and activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

(c) Impairment of Mine Development Expenditure

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved and probable reserves and measured, indicated and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

(d) Determination of Mineral Resources and Ore Reserves

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, and provision for decommissioning and restoration. The information in this report as it relates to ore reserves, mineral resources or mineralisation is reported in accordance with the AusIMM "Australian Code for Reporting of Identified Mineral Resources and Ore Reserves 2012". The information has been prepared by or under supervision of competent persons as identified by the Code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

(e) Share-Based Payment Transactions

The Company measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined using the Black-Scholes valuation method, taking into account the terms and conditions upon which the instruments were granted. The related assumptions are detailed in Note 20. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next reporting period, but may affect expenses and equity.

(f) Rehabilitation and Site Restoration Provision

Significant estimates and assumptions are made in determining the provision for rehabilitation of the mine as there are numerous factors that will affect the ultimate liability payable.

These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and changes in discount rates. These uncertainties may result in future actual expenditure differing from amounts currently provided.

(g) Fair Value of Financial Derivative Instruments

The Group assesses the fair value of its derivative instruments in accordance with the accounting policy stated at Note 7(f). When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, such as Monte Carlo simulations, Black-Scholes valuation models and discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include consideration of inputs such as market price, market volatility, commodity price and foreign exchange volatility. Changes in these assumptions could affect the reported fair value of financial instruments. Refer to Note 7(f) for the assumptions applicable to the Group's financial derivative instruments.

(h) Recovery of Deferred Tax Assets

Judgement is required in determining whether deferred tax assets are recognised in the Consolidated Statement of Financial Position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from

estimates, the ability of the Group to realise net deferred tax assets could be impacted. Additionally, future changes in tax laws could limit the ability of the Group to obtain tax deductions in future periods.

The Group has unrecognised deferred tax assets arising from tax losses and other temporary differences. The ability of the Group to utilise its tax losses is subject to meeting the relevant statutory tests.

The income tax expense has been estimated and calculated based on management's best knowledge of current income tax legislation. There may be differences with the treatment of individual jurisdiction provisions but these are not expected to have any material impact on the amounts as reported.

Note 12: Financial Risk Management

(a) Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash, receivables, payables, loans and hedging instruments.

The Group monitors and manages its exposure to key financial risks in accordance with the Group's financial management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. Primary responsibility for identification and control of financial risks, as identified below, is borne between the Board of Directors and senior management.

(b) Interest Rate Risk

The Group's exposure to market risk for changes in interest rates arise from variable interest rate exposure on cash, fixed deposits and interest bearing liabilities.

The Group's policy is to manage its exposure to interest rate risk by holding cash in short-term, fixed rate and variable rate deposits with reputable financial institutions. With interest bearing liabilities, consideration is also given to the potential renewal of existing positions, alternative financing and the mix of fixed and variable interest rates.

(c) Interest Rate Swaps

Under the Group's interest rate swap contract, the Group agrees to exchange the difference between floating and fixed rate interest amounts calculated on an agreed notional principal amount of the Senior Facility. The contract enables the Group to mitigate the risk of changing interest rates on the fair value of the issued floating rate Senior Facility and the cash flow exposures on the variable interest rate. The fair value of interest rate swap at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period. Refer to Note 7 for details of the Group's cash flow hedges.

The following table summarises the financial assets and liabilities of the Group, together with the effective interest rates as at the balance date.

	Floating interest rate	Fixed interest rate maturing in:			Non- interest bearing	Total	Average interest rate:	
		< 1 year	1 to 5 years	> 5 years			Floating %	Fixed %
2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Financial assets								
Cash and cash equivalents	10,656	-	-	-	-	10,656	1.3	-
Trade and other receivables	-	-	-	-	1,339	1,339	-	-
Other financial assets	-	-	-	-	1,736	1,736	-	-
Financial liabilities								
Trade and other payables	-	-	-	-	9,227	9,227	-	-
Other financial liabilities	-	110	225	-	5,590	5,925	-	4.5
Loans and borrowings	564	45,168	81,928	-	349	128,009	6.3	7.1

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	Floating interest rate	Fixed interest rate maturing in:			Non- interest bearing	Total	Average interest rate:	
		< 1 year	1 to 5 years	> 5 years			Floating	Fixed
2016	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
Financial assets								
Cash and cash equivalents	2,500	-	-	-	-	2,500	1.3	-
Trade and other receivables	-	-	-	-	11,392	11,392	-	-
Other financial assets	-	-	-	-	265	265	-	-
Financial liabilities								
Trade and other payables	-	-	-	-	6,487	6,487	-	-
Other financial liabilities	-	910	235	-	2,261	3,406	-	4.5
Loans and borrowings	725	6,290	97,235	-	615	104,865	6.3	7.0

At 30 June 2017, if interest rates had moved by the points shown below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	Post tax loss		Equity	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
+ 1% (100 basis points)	(3,392)	(3,853)	3,392	3,853
- 0.50% (50 basis points)	2,472	3,047	(2,742)	(3,047)

The movements in loss after income tax are due to higher/lower interest costs from fixed and variable rate debt and cash balances during the relevant year. Reasonably possible movements in interest rates were determined based on observations of historical movements in the past two years.

The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

(d) Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of the instruments. Exposure at balance date is addressed in each applicable Note.

The Group trades only with recognised, creditworthy third parties and as such, collateral is not requested nor is it the Group's policy to securitise its receivables. Receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

The credit quality of the Group's financial assets as at 30 June 2017 is as follows:

2017	Aaa \$'000	Aa1 \$'000	Aa2 \$'000	Aa3 \$'000	Ba3 \$'000	Internally rated \$'000	Total \$'000
Financial assets							
Cash and cash equivalents	-	-	1	10,655	-	-	10,656
Trade and other receivables	658	534	117	-	-	30	1,339
Financial liabilities							
Cash and cash equivalents	-	-	1	2,499	-	-	2,500
Trade and other receivables	464	534	117	-	10,247	30	11,392
Financial liabilities							
2016							
Financial assets							
Cash and cash equivalents	-	-	1	2,499	-	-	2,500
Trade and other receivables	464	534	117	-	10,247	30	11,392

The equivalent S&P and Moody's rating of the financial assets represents the rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.

Internally rated customers are customers with whom the Group has traded and have no history of default.

(e) Liquidity Risk

The Group's objective is to ensure sufficient liquid funds are available to meet the Group's financial commitments in a timely and cost effective manner.

The Group's treasury function continually reviews the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Sensitivity analysis is conducted to ensure that the Group has the ability to meet commitments.

Non-Derivative Financial Liabilities

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as at 30 June 2017. For the other obligations the respective undiscounted cash flows for the respective upcoming financial years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. However, where the counterparty has a choice when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Loan and borrowing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g. inventories and trade receivables). Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

2017	< 1 year \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	10,656	-	-	10,656
Trade and other receivables	657	682	-	1,339
Other financial assets	1,581	155	-	1,736
Financial liabilities				
Trade and other payables	(9,227)	-	-	(9,227)
Other financial liabilities	(2,321)	(3,604)	-	(5,925)
Loans and borrowings	(52,984)	(92,047)	-	(145,031)
Net inflow/(outflow)	(51,638)	(94,814)	-	(146,452)

2016	< 1 year \$'000 *	1 to 5 years \$'000	> 5 years \$'000	Total \$'000 *
Financial assets				
Cash and cash equivalents	2,500	-	-	2,500
Trade and other receivables	10,710	682	-	11,392
Financial liabilities				
Trade and other payables	(6,487)	-	-	(6,487)
Other financial liabilities	(7,219)	(329)	-	(7,548)
Loans and borrowings	(19,623)	(109,853)	-	(129,476)
Net inflow/(outflow)	(20,119)	(109,500)	-	(129,619)

* Refer to Note 18 for details regarding the restatement as a result of an error identified.

(f) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in US\$. Foreign currency is monitored by the Board of Directors but there are currently no formal hedging policies in place.

At reporting date, the Group has the following exposure to US\$ foreign currency that is not designated in cash flow hedges:

	2017 A\$'000	2016 A\$'000
Loans and borrowings	109,831	84,799

At 30 June 2017, if the United States dollar strengthened or weakened against the Australian dollar by the percentage shown below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	Post tax loss		Equity	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
+ 10%	9,985	7,709	(9,985)	(7,709)
- 10%	(12,203)	(9,422)	12,203	9,422

Reasonably possible movements in exchange rates were determined based on observations of historical movements in the past two years.

The reasonably possible movement was calculated by taking the USD spot rate as at balance, moving this spot rate by the reasonably possible movements and then re-converting the USD into AUD with the new spot rate.

The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

As at 30 June 2017, the AUD:USD exchange rate is A\$1:US\$0.7692 and the year to date average AUD:USD exchange rate is A\$1:US\$0.7545. The Group uses exchange rates provided by the Reserve Bank of Australia.

(g) Forward Foreign Exchange Contracts

It is the policy of the Group to enter into forward foreign exchange contracts over a rolling quarterly period to cover 100% of the following two quarter's operating expenditure with cover decreasing to 25% of quarter eight's forecast operating expenditure.

Refer to Note 7 for details of the Group's cash flow hedges.

(h) Fair Value Estimation

The fair value of financial assets and financial liabilities is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

The fair value of financial assets and liabilities approximate their carrying values, unless otherwise specified.

Note 13: Capital Risk Management

When managing capital, management's objective is to safeguard the Company's ability to continue as a going concern as well as to maintain an optimum return to shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Company.

Management constantly adjusts the capital structure to take advantage of favourable costs of capital or high return on assets. As the market is constantly changing, management may return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors its capital through monthly Board of Director reporting including management accounts and forecasts combined with appropriate external financial, corporate and legal advice when required.

To a lesser extent, gearing ratios are also used to monitor capital. Appropriate capital levels are maintained to ensure that all approved expenditure programs are adequately funded. This funding is derived from a combination of debt and equity. Refer to Note 3 for information on going concern.

The gearing ratio is calculated as net debt divided by total capital. Net debt is defined as loans and borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the Consolidated Statement of Financial Position plus net debt.

	2017	2016
Gearing ratio	101.3%	79.3%

The Group is not subject to any externally imposed capital restrictions.

GROUP STRUCTURE

This Section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole.

Note 14: Interests in Other Entities

(a) Subsidiaries

The consolidated Financial Statements include the Financial Statements of MZI Resources Ltd and the subsidiaries listed in the following table:

Name of entity	Incorporation Country	Equity holding %	
		2017	2016
Keysbrook Leucoxene Pty Ltd	Australia	100%	100%
NT Exploration Pty Ltd (i)	Australia	100%	100%
Keysbrook Property Pty Ltd (i)	Australia	100%	100%

These entities are not required to be separately audited. An audit of the entity's results and position is performed for the purpose of inclusion in the Consolidated Financial Statements.

(b) Ultimate Parent

MZI Resources Ltd is the ultimate Australian Parent entity and ultimate Parent of the Group.

UNRECOGNISED ITEMS

This Section of the Notes provides information about items that are not recognised in the Consolidated Financial Statements as they do not (yet) satisfy the recognition criteria.

In addition to the items and transactions disclosed below, there are also:

- ▶ unrecognised tax amounts – refer to Note 6
- ▶ non-cash investing and financing transactions – refer to Note 10

Note 15: Contingent Liabilities

Refer to Note 7(g)(viii) for details relating to a contingent facility provided by RMB Resources Limited.

Note 16: Commitments

(a) Capital Commitments

As at 30 June 2017, the Group does not have any capital commitments due within one year in relation to the construction and development of the Keysbrook Project (2016: \$1.892m due within one year).

(b) Non-Cancellable Operating Leases

During the year ended 30 June 2013, the Company entered into a commercial lease to rent office space. The lease has a fixed term with an option to renew for a further 3 years at the Company's discretion included in the contract.

There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals payable under the non-cancellable operating leases as at 30 June 2017 are as follows:

	30 Jun 17 \$'000	30 Jun 16 \$'000
Not later than one year	40	251
Later than one year but not later than five years	-	42
Aggregate lease expenditure contracted for at balance date but not provided for	40	293

(c) Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to meet the minimum expenditure requirements specified by various State and Territory Governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in this financial report.

The level of exploration expenditure expected in the year ending 30 June 2018 for the Group is approximately \$0.685m. This includes the minimum amounts required to retain tenure. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond 2017 are dependent upon whether existing rights of tenure are renewed or new rights of tenure are acquired.

Note 17: Events Occurring After the Reporting Period

On 7 July 2017, the Company issued 4,253,870 fully paid ordinary shares at an issue price of \$0.2004 per share plus 481,271 fully paid ordinary shares at an issue price of \$0.2044 per share to RCF for payment of interest for the June 2017 quarter, associated with the Keysbrook finance facilities.

On 18 August 2017, the Company renewed the terms and extended the commercial lease relating to the rental of Perth office space. The extended period commences on 3 September 2017 and expires on 2 September 2019.

On 18 September 2017, the Company announced that it would receive an additional US\$5.0m in Working Capital Funding from Resource Capital Fund VI LP ("RCF") on terms and conditions similar to the existing working capital facility disclosed at Note 7(g)(vii).

Note 18: Restatement of Prior Year Error

RCF provided a US\$21.0m Convertible Loan Facility which was drawn on 26 November 2014. An embedded derivative relating to the impact of share price and exchange rate movements was recorded on inception and revalued at 31 December 2014 and 30 June 2015 balance dates. The conversion exchange rate and price were subject to variability until 26 November 2015. Given the complex nature of this technical accounting matter, management sought independent expert advice in February 2016 from a top 4 accounting firm in relation to the correct treatment of the derivative for the period ended 31 December 2015. The advice concluded that because the conversion metrics were set as of this date, the derivative should be de-recognised. The Company's auditors concurred with this advice. Management initially reclassified the embedded derivative's fair value at 31 December 2015 of \$15.455m to a reserve account through Other Comprehensive Income. The Company's auditors recommended the fair value of the derivative should be recognised as a gain or loss in Profit and Loss rather than Other Comprehensive Income. Management subsequently adopted this approach and the interim financial statements for the period ended 31 December 2015 recorded a fair value gain of \$15.455m.

This treatment has now been identified as incorrect as the Convertible Loan facility is denominated in US dollars while the Group's functional currency is Australian Dollars, giving rise to a conversion option that is not fixed and requires recognition as an embedded derivative. The error remained undetected during the audit for the period ended 30 June 2016 and the half year review for the period ended 31 December 2016. The independent advice received in February 2016 was amended in June 2017 and concurs that the embedded derivative should not have been de-recognised. Due to the material nature of the error, the Company has restated certain comparative balances at 30 June 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

The prior year error has been corrected by restating the affected financial statement line items for the prior period as follows:

Consolidated Statement of Comprehensive Income (Extract)	Prior Year before correction of error 30 Jun 16 \$'000	Correction of error \$'000	Prior Year restated for correction of error 30 Jun 16 \$'000
Revenue from sales	17,346	-	17,346
Costs of production	(10,693)	-	(10,693)
	6,653	-	6,653
Depreciation, amortisation and other costs relating to sales	(16,166)	-	(16,166)
Gross Loss	(9,513)	-	(9,513)
Other revenue	24	-	24
Other income	272	-	272
Corporate expenses	(6,251)	-	(6,251)
Other expenses	(2,455)	-	(2,455)
Gain / (Loss) on foreign exchange	(9,752)	-	(9,752)
Fair value movements on financial instrument derivatives	13,874	(4,142)	9,732
Loss before finance and tax	(13,801)		(17,943)
Finance expenses	(10,611)		(10,611)
Loss before tax	(24,412)	(4,142)	(28,544)
Earnings per share	(0.17)		(0.20)

Consolidated Statement of Financial Position (Extract)	Prior Year before correction of error 30 Jun 16 \$'000	Correction of error \$'000	Prior Year restated for correction of error 30 Jun 16 \$'000
Current liabilities			
Trade and other payables	6,487	-	6,487
Provisions	1,227	-	1,227
Other financial liabilities	3,077	4,142	7,219
Borrowings	11,803	-	11,803
Total current liabilities	22,594	4,142	26,736
Non-current liabilities			
Provisions	6,028	-	6,028
Other financial liabilities	329	-	329
Borrowings	93,062	-	93,062
Total non-current liabilities	99,419	-	99,419
Equity			
Share capital	114,041	-	114,041
Reserves	(341)	-	(341)
Accumulated losses	(87,029)	(4,142)	(91,171)
Total Equity	26,671	(4,142)	22,529

OTHER INFORMATION

This Section of the Notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the Financial Statements.

Note 19: Related Party Transactions

(a) Loans to Subsidiaries

Loans between entities in the wholly owned Group are non-interest bearing, unsecured and are payable upon reasonable notice having regard to the financial situation of the entity.

(b) Transactions with Related Parties

The following transactions were undertaken between any Group company and the following Director-related parties during the years ended 30 June 2017 and 30 June 2016:

- ▶ Tricoastal Minerals (Holdings) Company Limited, a company in which Mr CT Wong has a beneficial interest, was paid Director's fees of \$0.076m (2016: \$0.073m). At 30 June 2017, an amount of \$0.019m (2016: \$0.019m) was owed to Tricoastal Minerals (Holdings) Company Limited.

- ▶ During the year ended 30 June 2013, the Company sold production from its Tiwi Islands Lethbridge South project to Tricoastal Minerals (Holdings) Company Limited. This was based on a sales agreement signed in 2010. The terms of sale are based on market prices at the time of sale.

From the sale proceeds amounts have been repaid against a loan received in a prior year from Tricoastal Minerals (Holdings) Company Limited. There is a balance of US\$0.268m outstanding at 30 June 2017 (2016: US\$0.457m). This is now the subject of a settlement deed, refer Note 7(g) (vi) for details.

- ▶ During the year ended 30 June 2017, the Company sold zircon concentrate product for US\$7.020m from its Keysbrook project to Tricoastal Minerals (Holdings) Company Limited (2016: US\$3.794m). This was based on a sales agreement signed in 2014. The terms of sale are based on market prices at the time of sale.

- ▶ Resource Capital Fund VI L.P. ("RCF"), a major shareholder of the Company, which nominated Mr R Beevor as a Director, was paid Interest and Commitment Fees of US\$3.345m (2016: US\$3.463m). At 30 June 2017, an amount of \$0.019m (2016: \$0.019m) was owed to RCF.

In addition, an amount of US\$21.000m was drawn down in relation to Additional Working Capital Facilities during the year ended 30 June 2017. Refer to Note 7(g) (vii) for details of the above facilities.

- ▶ During the year ended 30 June 2017, the Company paid Maree Arnason, an Independent Non-Executive Director, advisory fees amounting to \$170,750 for services in relation to Company regulatory and compliance matters. (2016 : nil).

- ▶ During the year ended 30 June 2017, the Company paid Mal Randall consulting fees of \$53,500 (2016: nil). Mr Randall held the position of Non-Executive Chairman of the Company until 22 August 2016 and was an Independent Non-Executive Director from that date until his retirement on 22 November 2016.

(c) Compensation of Directors and KMP

The aggregate compensation paid to Directors and other KMP of the Group is set out below:

	30 Jun 17	30 Jun 16
	\$	\$
Short-term	3,180,947	2,529,227
Post-employment	218,493	246,585
Share-based payments	165,560	2,311,339
Total	3,565,000	5,087,151

Note 20: Share-Based Payments

(a) Share-Based Payment Transactions

The Company provides benefits to employees (including Directors) in the form of share-based payments whereby employees render services in exchange for shares or rights over shares ("share-based payments" or "equity-settled transactions").

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date they are granted. The value is determined using an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of MZI ("market conditions") if applicable.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Consolidated Statement of Comprehensive Income charge or credit for the period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification as measured at the date of modification.

Where an equity-settled award is cancelled (other than cancellation when a vesting condition is not satisfied), it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of the outstanding options is reflected as additional share dilution in the computation of earnings per share.

(b) Options Issued to Employees

Senior management and members of staff of the Group may be issued with options over ordinary shares of MZI. The options, issued for nil consideration, are issued in accordance with the terms and conditions of the Employee Incentive Plan (EIP) approved by shareholders on 21 November 2015 and are subject to performance criteria established by the Directors of MZI.

Employees do not possess any rights to participate in the EIP as participation is solely determined by the Board of Directors. Options may be exercised at any time from the date of vesting to the date of expiry. The exercise price for employee options granted under the EIP will be fixed by the Board of Directors prior to the grant of the employee option. Each employee share option converts to one ordinary share in MZI. The options do not provide any dividend or voting rights. The options are not quoted on the ASX.

The objective of the grant of options to employees is to assist in the recruitment, reward, retention and motivation of the employees of the Group.

A total of 1,100,000 options over ordinary shares under the EIP were in place during the year. As at 30 June 2017, these 1,100,000 options remain unvested (Series 13).

(c) Options Issued to Directors

A total of 200,000 options over ordinary shares were granted on 27 June 2014 following approval at a General Meeting held on that date (Series 10). The exercise price for these options granted to Non-Executive Directors is \$0.80.

A further 1,700,000 options over ordinary shares were granted on 1 December 2015 following approval at a General Meeting held on 24 November 2015 (Series 13). The exercise price for these options granted to Non-Executive Directors is \$0.65.

These options may be exercised at any time from the date of vesting to the date of expiry. Each option converts to one ordinary share in MZI. The options do not provide any dividend or voting rights. The options are not quoted on the ASX.

The primary purpose of the above grants is to motivate and reward the performance of Non-Executive Directors in their respective roles.

These options over ordinary shares were in place during the year and as at 30 June 2017.

(d) Options Issued in Consideration for Services

On 21 June 2013, the Company granted 112,500 options with an exercise price of \$0.80 to a consultant in consideration for services in relation to a capital raising (Series 8). There are no voting rights attached to the options and they may be exercised at any time on or before 3 July 2016.

The fair value of these options has been disclosed as consultant costs in a prior year.

On 5 December 2013, the Company granted 1,250,000 options with an exercise price of \$0.64 to a consultant in consideration for corporate advisory services (Series 9). There are no voting rights attached to the options and they may be exercised at any time on or before 5 December 2016.

The fair value of these options has been disclosed as consultant costs in the prior year.

On 27 June 2014, the Company granted 1,987,500 options with an exercise price of \$0.6592 to Resource Capital Fund VI L.P. ("RCF") in consideration for the acceptance fees for the finance facilities to develop the Keysbrook Project (Series 11). There are no voting rights attached to the options and they may be exercised at any time on or before 3 July 2017.

The fair value of these options has been disclosed as transaction costs included in other current assets in the prior year.

On 19 November 2014, the Company granted 775,000 options with an exercise price of \$0.34 to RCF in consideration for the acceptance fees for the finance facilities to develop the Keysbrook Project (Series 12). There are no voting rights attached to the options and they may be exercised at any time on or before 19 November 2017. The fair value of these options has been disclosed as transaction costs associated with the Bridge Facilities.

On 23 December 2015, the Company granted 1,000,000 options with an exercise price of \$0.50 to a consultant in consideration for services in relation to a capital raising (Series 14). There are no voting rights attached to the options and they may be exercised at any time on or before 30 May 2018.

The fair value of these options has been disclosed as share-based payments.

These options over ordinary shares were in place during the year and as at 30 June 2017.

(e) Movements in Options

This table illustrates the number and weighted average exercise prices of and movements in unlisted options issued during the year:

	2017		2016	
	Options No.	Weighted average exercise price	Options No.	Weighted average exercise price
Outstanding at the beginning of the year	8,250,000	\$0.6447	4,950,000	\$0.7674
Granted during the year	-	-	3,800,000	\$0.6105
Expired during the year	(1,687,500)	\$(0.8444)	(500,000)	\$(1.6000)
Total	6,562,000	\$0.5993	8,250,000	\$0.6447

The weighted average remaining contractual life of the share options as at 30 June 2017 is 1.22 years (2016: 1.86 years).

The weighted average fair value of options granted during the year was nil (2016: \$0.2164).

The following table lists the inputs to the model for options in place as at 30 June 2017:

	Series 11	Series 12	Series 13	Series 14
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%
Expected volatility (%)	99.40%	100.00%	99.70%	99.70%
Risk-free interest rate (%)	2.70%	2.57%	2.21%	2.04%
Expected life of options (years)	3.016	3.000	4.000	2.436
Exercise price (cents)	65.9	34.0	65.0	50.0
Grant date share price (cents)	36.0	32.0	38.5	36.0
Grant Date	27 Jun 14	19 Nov 14	01 Dec 15	23 Dec 15
Expiry Date	02 Jul 17	19 Nov 17	01 Dec 19	30 May 18
Number	1,987,500	775,000	2,800,000	1,000,000
Fair value at grant date (cents)	\$0.1840	\$0.1974	\$0.2344	\$0.1806

The expected life of the option is based on historical data and is not necessarily indicative of exercise payments that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The fair value of the options is measured at grant date using the Black-Scholes option valuation method taking into account the terms and conditions upon which the instruments were granted. The services received and liabilities to pay for those services are recognised over the expected vesting period.

(f) Rights over Shares Issued under the Employee Share Trust Plan (EST)

The EST was established to enable KMP of the Group to be issued with rights over fully paid ordinary shares of MZI. The rights over shares, issued for nil consideration, are issued in accordance with the terms and conditions as approved at a General Meeting by shareholders and performance criteria established by the Board of Directors of MZI.

KMP do not possess any rights to participate in the EST as participation is solely determined by the Board of Directors. Rights over shares convert to one fully paid ordinary share in MZI at an exercise price of nil upon meeting certain non-market based performance conditions. The rights over shares do not provide any dividend or voting rights. These rights over shares are not quoted on the ASX. If a KMP ceases to be employed by the Group within the period, the unvested rights will be forfeited.

The objective of the EST is to assist in the recruitment, reward, retention and motivation of the KMP of the Group.

During the prior year ended 30 June 2016, 1,726,124 rights over shares were granted as long term incentives ("LTI") with the following performance conditions:

- ▶ 50% of the LTI units in the share trust will be assessed for vesting based upon the Company's relative share price performance versus the ASX 300 Index per the scale below.
 - below -10% of index performance – nil vesting
 - from -10% to 0% of index performance – vests at a rate of 2.5% of units in the share trust for each 1% movement
 - from 0% to 25% above index performance – vests at 3% of units in the share trust for each 1% movement
 - from 25% to 50% above index performance - vests at 4% of units for each 1% movement
- ▶ 50% of the LTI units in the share trust will be assessed for vesting based on the compound annual growth rate (CAGR) achieved in the price of the Company's shares from 1 January 2016 to 30 June 2018 per the scale below.
 - from 0% to 10% - vests at 3% of units in the share trust for each 1% of CAGR
 - above 10% - vests at 7% of units in the share trust for each 1% of CAG.

In both cases, no award will be granted unless the Company's share price at the vesting date of 30 June 2018 exceeds the share price as at 1 January 2016. In addition, shares may not be disposed of by the KMP within 12 months of vesting date.

These rights over shares remain unvested as at 30 June 2017.

A further 1,729,840 rights over shares were granted during the prior year ended 30 June 2017 as short term incentives ("STI") with the following performance conditions:

- ▶ improved safety performance measured by hazard identification response timeliness and Total Recordable Injury Frequency Rate compared to prior year
- ▶ achievement of defined targets such as final saleable product, cash operating costs and EBITDA

These rights over shares have expired during the year ended 30 June 2017 as the performance conditions for vesting have not been met.

During the year ended 30 June 2017, 908,936 rights over shares were granted as long term incentives ("LTI") with the following performance conditions:

- ▶ 50% of the LTI units in the share trust will be assessed for vesting based upon the Company's relative share price performance versus the ASX 300 Index per the scale below.
 - below -10% of index performance – nil vesting
 - from -10% to 0% of index performance – vests at a rate of 2.5% of units in the share trust for each 1% movement
 - from 0% to 25% above index performance – vests at 3% of units in the share trust for each 1% movement
 - from 25% to 50% above index performance - vests at 4% of units for each 1% movement
- ▶ 50% of the LTI units in the share trust will be assessed for vesting based on the compound annual growth rate (CAGR) achieved in the price of the Company's shares from 30 June 2016 to 30 June 2019 per the scale below;
 - from 0% to 10% - vests at 3% of units in the share trust for each 1% of CAGR
 - above 10% - vests at 7% of units in the share trust for each 1% of CAGR.

In both cases, no award will be granted unless the Company's share price at the vesting date of 30 June 2019 exceeds the share price as at 30 June 2016. In addition, shares may not be disposed of by the KMP within 12 months of vesting date.

These rights over shares remain unvested as at 30 June 2017.

During the year ended 30 June 2017, 1,508,100 rights over shares were granted as short term incentives with the following performance conditions:

- ▶ improved safety performance measured by hazard identification response timeliness and Total Recordable Injury Frequency Rate compared to prior year
- ▶ achievement of defined targets such as final saleable product, cash operating costs and EBITDA

These rights over shares have expired during the year ended 30 June 2017 as the performance conditions for vesting have not been met.

The rights over shares are administered by the MZI Resources Ltd Employee Share Trust. The shares were issued at market price on grant date and are held by the trust. Forfeited shares are reallocated in subsequent grants. Under the terms of the trust deed, MZI is required to provide the trust with the necessary funding for the acquisition of the shares at the time of the grant of the right.

(g) Movements in Rights over Shares

This table illustrates the number and weighted average fair value of rights over shares and movements in rights over shares issued during the year:

	2017		2016	
	Rights over shares No.	Weighted average fair value \$	Rights over shares No.	Weighted average fair value \$
Outstanding at beginning of year	3,455,964	0.3950	893,908	0.4529
Granted during the year	2,417,036	0.2869	4,566,968	0.4047
Vested during the year	-	-	(2,004,912)	(0.4430)
Forfeited during the year	(5,631,533)	(0.4333)	-	-
Total	241,467	0.2486	3,455,964	0.3950

The fair value of the rights over shares at grant date was estimated by taking the market price of the Company's shares on that date less the present value of expected dividends that will not be received by the KMP on their rights over shares during the vesting period.

The weighted average remaining contractual life of the rights over shares as at 30 June 2017 is 0.5 years (2016: 1.0 years).

(h) Performance Rights Issued Under the Employee Incentive Plan

The Employee Incentive Plan (EIP) was established to enable employees of the Group to be issued with performance rights entitling each participant to a fully paid ordinary share. The performance rights, issued for nil consideration, are issued in accordance with the terms and conditions approved at a General Meeting by shareholders and in accordance with performance criteria established by the Board of Directors of MZI.

Employees do not possess any rights to participate in the EIP as participation is solely determined by the Board of Directors. Performance rights convert to one fully paid ordinary share in MZI at an exercise price of nil upon meeting certain non-market based performance conditions. The performance rights do not provide any dividend or voting rights. The performance rights are not quoted on the ASX. If an employee ceases to be employed by the Group within the period, the unvested performance rights will be forfeited.

The objective of the EIP is to assist in the recruitment, reward, retention and motivation of the KMP of the Group.

During the year ended 30 June 2017, no performance rights were granted as compensation for meeting performance conditions.

During the prior year ended 30 June 2016, 449,184 performance rights were granted as compensation for meeting performance conditions associated with the 30 June 2015 financial year. These performance rights have vested as at 30 June 2016.

(i) Movements in Performance Rights

This table illustrates the number and weighted average fair value of performance rights and movements in performance rights issued during the year:

	2017		2016	
	Performance rights No.	Weighted average fair value	Performance rights No.	Weighted average fair value \$
Outstanding at beginning of year	-	-	-	-
Granted during the year	-	-	449,184	0.3200
Vested during the year	-	-	(449,184)	(0.3200)
Forfeited during the year	-	-	-	-

The fair value of the performance rights at grant date was estimated by taking the market price of the Company's shares on that date less the present value of expected dividends that will not be received by the employees on their performance rights during the vesting period.

The weighted average contractual life of the performance rights as at 30 June 2017 is nil (2016: nil).

There were no cash settled share-based payments during the year (2016: \$nil).

Note 21: Remuneration of Auditors

	30 Jun 17	30 Jun 16
Auditing and reviewing of financial reports	127,500	130,000
Tax services related to the Group	-	28,973
Total	127,500	158,973

Note 22: Loss per Share

	30 Jun 17 \$'000	30 Jun 16 \$'000 *restated
Loss used in calculating basic and diluted loss per share	(31,408)	(28,554)
Loss used in calculating basic and diluted loss per share from continuing operations	(31,408)	(28,554)
	2017	2016
Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share	212,225,985	143,136,568

Basic earnings/loss per share is determined by dividing net profit or loss after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings/loss per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares by the weighted average number of shares assumed to have been issued for no consideration in relation to potential ordinary shares.

Note 23: Parent Entity Information

	30 Jun 17 \$'000	30 Jun 16 \$'000
Current assets	12,268	9,729
Non-current assets	32,706	39,187
Total assets	44,974	48,916
Current liabilities	2,235	2,796
Non-current liabilities	377	493
Total liabilities	2,612	3,289
Issued capital	117,908	114,041
Reserves	2,083	1,619
Accumulated losses	(77,629)	(70,033)
Total equity	42,362	45,627
Loss for the year	(7,512)	(17,459)
Total comprehensive loss for the year	(7,512)	(17,459)

The Company has no material contingent liabilities; however, it has contractual obligations in the form of leases to rent office space. Refer to Note 16 for further details of commitments.

Note 24: Changes in Accounting Policies

In the year ended 30 June 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to the Group and effective for the current annual reporting period.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and, therefore no material change is necessary to Group accounting policies.

Note 25: New Accounting Standards and Interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 30 June 2017 are outlined below.

(a) AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. All financial assets that are within the scope of AASB 9 are required to be measured at either amortised cost or fair value, while financial liabilities measured at fair value through profit and loss will require consideration as to the portion of change in fair value that is attributable to changes in the credit risk of that liability. Such changes in value with a connection to change in credit risk will be presented in other comprehensive income rather than profit and loss.

The requirements for hedge accounting under AASB 9 retain similar accounting treatments to those currently available under AASB139. The new standard introduces greater flexibility to the types of transactions eligible for hedge accounting while the previous requirement for hedge effectiveness testing has been replaced with the principle of an 'economic relationship' and the requirement for retrospective assessment of hedge effectiveness has been removed. The new standard has however introduced enhanced disclosure requirements regarding the entity's risk management activities.

The Group has considered the impact on its consolidated Financial Statements and assessed that the effect of the new standard will be minimal. The Group currently measures financial assets and financial liabilities at fair value through profit and loss, or at amortised cost. Further consideration will be required to assess the impact of changes in credit risk that may be related to changes in fair value of financial liabilities.

It is expected that the introduction of AASB 9 will not have a significant in the accounting for hedge transactions as the Group's hedging activities currently qualify for hedge accounting under the existing standard and the Group does not expect to identify any new hedge relationships under the revised standard.

(b) AASB 15 Revenue from Contracts with Customers (effective from 1 January 2018)

AASB 15 introduces a new framework for accounting for revenue and will replace AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programs. AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, therefore the notion of control replaces the exiting notion of risks and rewards.

The Group has considered the impact on its consolidated Financial Statements resulting from the application of AASB 15 and concluded that the new standard is unlikely to have a significant affect. The Group recognises revenue from the sale of mineral sands products delivered in bulk shipments under agreed sales contracts. The majority of product is sold under the terms of FOB where control passes to the customer at the point of product loading onto a ship, while the remaining product is sold as CIF where control passes to the customer at the point of arrival and transfer off the ship. The timing of revenue recognition is currently at the point where control passes to the customer and the Group's performance obligations are fulfilled.

(c) AASB 16 Leases (effective from 1 January 2019)

AASB16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions between operating leases (previously off balance sheet) and finance leases (previously on balance sheet) are removed under the new standard and replaced by the concept of right of use. Where an entity has control over and an ongoing right to use an asset, that asset will be recognised on the balance sheet as an asset with a corresponding liability.

The Group has considered the impact on its consolidated Financial Statements and determined that there is a small impact likely to occur as the Group has entered into a commercial lease for the use of its Perth office space. This is currently classified as an operating lease and accounted for in accordance with AASB 117. As the Group has an ongoing right to use the property and effective control of the leased space for a period of more than 12 months, it is likely to be classified as a right to use asset under AASB 16 and measured at cost on the balance sheet, with a corresponding 'right to use' liability.

The Group continues to assess its contracts and other arrangements that may be impacted by the introduction of revised standard AASB16. The Company has a 5 year contract with Doral for 50% use of their Picton Processing Plant which requires further consideration. This arrangement does not transfer control of the facility to the Company nor is there a definite transfer of a 'right to use' the facility. The existing arrangement allows the Company the right to have product toll-treated at the facility at certain times. This and the Group's other contracts will continue to be evaluated for potential impact of the new standard.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Note 26: Deed of Cross Guarantee

MZI Resources Limited and the following entities are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the other;

Closed Group:

- ▶ MZI Resources Limited
- ▶ Keysbrook Leucoxene Pty Ltd
- ▶ Keysbrook Property Pty Ltd
- ▶ NT Exploration Pty Ltd

By entering into a deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and Directors Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Class Order, which represent the entities who are parties to the deed of cross guarantee and which are controlled by MZI Resources Limited.

The consolidated statement of comprehensive income and the consolidated statement of financial position for the closed group is consistent with those of the consolidated entity.

17 Directors' Declaration

In the opinion of the Directors:

1. the Financial Statements and Notes are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (b) 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;
2. the Financial Statements and Notes thereto are in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board; and
3. at the date of this declaration, subject to Note 3, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Martin Purvis
Managing Director

A handwritten signature in blue ink, appearing to read 'M. Purvis', with a small blue circular stamp or mark to the right.

Perth, Western Australia
28 September 2017

18 Independent Auditor's Report



Independent auditor's report

To the members of MZI Resources Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of MZI Resources Ltd (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

- a) 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 then ended
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration

Basis for opinion

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to note 3(a) in the financial report, which indicates that as at 30 June 2017, the Group had a working capital deficit, inclusive of provisions and financial instruments, of \$41.7 million and net liabilities of \$1.5 million. For the year ended 30 June 2017 the Group incurred a loss after tax of \$31.4 million. The Group's ability to continue as a going concern is dependent upon being able to secure sufficient additional funding under the plans set out in note 3(a). These conditions, along with other matters set forth in note 3(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group operates a single project known as the Keysbrook project. The project comprises the mine and the Keysbrook Wet Concentration Plant (KWCP). Heavy mineral concentrate produced at the mine and KWCP is treated by a third party at the Picton Mineral Separation Plant (PMSP) prior to shipping to customers.



Materiality

- For the purpose of our audit we used overall Group materiality of \$396,000, which represents approximately 1% of the Group's revenue for the year.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group revenue because, in our view, it is the metric most reflective of the business activity of the Group while the Keysbrook project continues to increase to full operating output levels.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The group engagement team visited head office, the mine, KWCP and PMSP and was responsible for all audit procedures for the group audit.

Key audit matters

Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:

- Accounting for financial instruments
- Borrowings
- Impairment of non-current assets
- Going concern

They are further described in the *Key audit matters* section of our report, except for the going concern matter which is described in the *Material uncertainty related to going concern* section.



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 for the current period. The key audit matters were 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 these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Accounting for financial instruments (Refer to notes 7 and 18 of the financial statements)</p> <p>During the current and the preceding financial years the Group entered into arrangements that gave rise to various financial instruments.</p> <p>The Group's financial instruments balances recognised in the financial statements included cash flow hedges and embedded derivatives in its finance facilities and a sales offtake agreement with a customer. Due to the complexity in the instruments, external accounting advice was obtained on the embedded derivatives in February 2016 and subsequently followed by the Group. This advice was amended in June 2017.</p> <p>This was a key audit matter due to the magnitude of the financial instruments balances, complexity of the instruments the Group is party to, and due to an error being identified in the prior period, requiring restatement, as set out in note 18.</p> <p>The Group also applied judgements and estimates in identifying and valuing the derivatives.</p>	<p>We read the most up-to-date finance and sales off-take agreements to identify terms of the agreements that give rise to embedded derivatives.</p> <p>We examined the key assumptions used in the valuation of the embedded derivatives and cash flow hedges:</p> <ul style="list-style-type: none"> • Forecast commodity price assumptions were consistent with published forecasts from external market experts on mineral sands commodity prices. • Foreign exchange rate assumptions were consistent with published forecasts from a range of investment banks. • Discount rates and share price volatility assumptions were compared to the Group's weighted average cost of capital and Group's historical share price volatility respectively. These assumptions were within our expected range of discount rates and volatility estimates. <p>With the assistance of PwC valuation experts we performed an assessment of the financial instruments valuation methodology used by the Group.</p> <p>In assessing the nature, quantum and timing of the restatement of the prior period error, we performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • obtained the external accounting advice provided to the Group in relation to the embedded derivatives. • assessed the appropriate accounting guidance to determine the nature of the accounting error identified. • obtained the embedded derivatives valuation models prepared by an external expert engaged by the Group to determine the quantum of the adjustment. • compared valuation methodology and the adjustment calculated by the Group to calculations performed by PwC valuation experts.



Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> assessed the appropriateness of the calculated adjustments for the years ended 30 June 2017 and 30 June 2016 and the relevant balance sheet positions impacted by the restatement. assessed the disclosure of the restatement in light of the requirements of Australian Accounting Standards.

Borrowings

(Refer to note 7 of the financial statements)

Borrowings as a percentage of total assets of the Group were 85% at 30 June 2017. Given the size of the borrowings balance, the importance of the capital structure and complexity included in various debt facilities, the accounting for the Group's borrowings was considered a key audit matter.

The Group's statement of financial position included current borrowings of \$45.8 million and non-current borrowings of \$82.3 million at 30 June 2017.

During the year there were several transactions related to borrowings, including draw down and repayment of certain facilities.

Prior to 30 June 2017, the Group obtained a waiver letter, waiving compliance with certain covenants in the Common Terms Agreement, which covers the Senior Facility and other debt instruments, as set out in note 7 of the financial statements.

We obtained confirmations directly from the Group's banks to confirm borrowings, including amounts, tenure and conditions.

We read the most up-to-date agreements between the Group and its financiers to obtain an understanding of the terms associated with the facilities, the amount of the facilities available for future draw down and any covenants contained in the facilities.

We tested the effective interest rate calculations. This included testing that the calculations are consistent with the terms of the agreements and the requirements of Australian Accounting Standards.

Where debt was classified as non-current, we tested the Group's assessment that they had the unconditional right to defer payment for at least 12 months from the balance sheet date, including considering written confirmation from the financier to the Group, prior to the balance sheet date, waiving certain covenants.

We evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.

Impairment of non-current assets

(Refer to notes 8b, 11(a), 11(c) of the financial statements)

The Group's financial report includes significant non-current assets at 30 June 2017 which consisted of Property, Plant and Equipment and capitalised Mine Development Expenditure relating to the Group's Keysbrook mineral sands project.

During the year the Group generated lower than expected revenues and cash flows from operations as the Keysbrook project continued to ramp-up production levels. This was considered an impairment indicator, requiring the Group to perform an impairment assessment over its non-current assets.

We performed the following audit procedures for the Keysbrook project, amongst others:

- Evaluated the Group's assessment that there were indicators of asset impairment at 30 June 2017.
- Obtained the Group's fair value less cost of disposal calculations and considered whether the methodology of the discounted cash flow model used to estimate the recoverable amount of the Keysbrook project (the impairment model) was consistent with Australian Accounting Standards.



Key audit matter	How our audit addressed the key audit matter
<p>The Group's impairment assessment was performed on a 'fair value less costs of disposal' basis to determine the recoverable amount of the Keysbrook project. This calculation was based on estimated future cash flows discounted at an appropriate rate.</p> <p>This assessment involved significant judgements made in relation to key assumptions. The most significant areas of judgment related to:</p> <ul style="list-style-type: none"> • forecast short and long term mineral sands prices and adjustments required to market prices for the Group's products • forecast foreign exchange rates • reserve and resource estimates and production and processing volumes • operating costs and capital expenditure • the discount rate <p>The Group assessed that no impairment charge was required as at 30 June 2017.</p> <p>This was a key audit matter due to the magnitude of the balances and the judgements involved by the Group in determining the recoverable amount of the Keysbrook project.</p>	<ul style="list-style-type: none"> • With the support of PwC valuation experts, assessed the key market related assumptions, being commodity prices and foreign exchange rates, against external data. Forecast commodity prices were consistent with published forecasts from external market experts on mineral sands commodity prices. Foreign exchange rates were consistent with published forecasts from a range of investment banks. • Examined assumptions on production volumes, future capital and operating expenditure and observed they were consistent with the Group's Life of Mine Plans and operating budgets and actual performance outcomes achieved to date. • Tested whether the mine life used in the impairment calculations was consistent with reported JORC reserves and resources. • Assessed the Group's discount rate, with reference to independently calculated discount rates applying weighted average cost of capital methodology, assisted by PwC valuation experts; and • Compared the disclosures in Note 8(b) and Note 11(a) and (c), including the sensitivities performed related to key assumptions, against the requirements in Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the Corporate Directory and the Directors' Report included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the 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_responsibilities/ari.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 13 to 26 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the remuneration report of MZI Resources Ltd for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A stylized, handwritten signature of PricewaterhouseCoopers in a dark blue or black ink.

PricewaterhouseCoopers

A handwritten signature of Ben Gargett in a dark blue or black ink.

Ben Gargett
Partner

Perth
28 September 2017