



INTERIM FINANCIAL REPORT
For the half-year ended 31 December 2017

1	Corporate Directory	3
2	Directors' Report.....	4
3	Operating and Financial Review	4
4	Events Subsequent to the end of the Reporting Period.....	6
5	Rounding	6
6	Auditor's Independence Declaration	6
7	Financial Statements	8
8	Notes to the Financial Statements	12
9	Directors' Declaration	22
10	Independent Auditor's Review Report.....	23

1 Corporate Directory

1.1 Board of Directors

Rodney Baxter	Independent Non-Executive Chairman
Chi To (Nathan) Wong	Non-Executive Director
Maree Arnason	Independent Non-Executive Director
Ronald Beevor	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

PO Box 3011

East Perth, Western Australia 6892

Telephone: +61 8 9328 9800

Facsimile: +61 8 9328 9911

Email: admin@mzi.com.au

Website: www.mzi.com.au

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.

DIRECTORS' REPORT

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 half-year ended 31 December 2017.

2.1 Directors

The following individuals were Directors of MZI Resources Ltd during the whole of the half-year up to the date of this report except as noted below:

▶ Rodney Baxter	Independent Non-Executive Chairman
▶ Chi To (Nathan) Wong	Non-Executive Director
▶ Maree Arnason	Independent Non-Executive Director
▶ Ronald Beevor	Non-Executive Director
▶ Martin Purvis	Managing Director
▶ Stephen Ward ¹	Independent Non-Executive Director

¹ Mr Stephen Ward retired from the Board of Directors on 27 December 2017.

3 Operating and Financial Review

3.1 Operating Result

The consolidated net loss for the half-year ended 31 December 2017 applicable to owners of the Parent after income tax was \$11,339,000 (2016: \$21,120,000*). * refer to Note 12 in the financial report

3.2 Review of Operations

The following significant events occurred during the half year:

- ▶ 5.25Mtpa operational upgrade commenced in September 2017 with significant progress in implementation realised by December;
- ▶ Half year HMC output rose by 9% to 53,239t while saleable production for the half year to December increased 35% from the prior half year to 39,251t;
- ▶ Sales volumes increased by 47% to 29,750t compared to the prior corresponding half with sales proceeds received of \$19.123m;
- ▶ Significant progress on refinancing process;
- ▶ RCF Additional Working Capital Facility increased by US\$5m in September 2017 to assist funding the 5.25Mtpa upgrade;
- ▶ Mineral sands market conditions continue to strengthen.

3.2.1 Keysbrook

There were Zero Lost Time Injuries during the half year ending 31 December 2017.

The primary focus during the half year to December was the planned operational upgrade at the Company's Keysbrook Operations. These upgrades and improvements are designed to increase saleable production, improve margins and reduce unit costs, the benefits from which should become evident in the second half of 2018.

The ongoing trend of process improvements continued with increased production and sales volumes realised in the December half year compared with the prior corresponding six month period. HMC output in the December half rose by 9% to 53,239t while saleable production increased 35% to 39,251t. Sales volumes in the half year improved by 47% to 29,750t compared to the prior six month period.

In September 2017, the Group announced the initiation of the 5.25Mtpa Operating Plan, designed to increase throughput and deliver sustainable positive operating cashflows. A number of significant improvements associated with the 5.25Mtpa Operating Plan were progressed during the period including the installation of a trommel adjacent to the Wet Concentrator Plant and the commencement of a trial for the co-disposal of tailings.

Co-disposal is intended to significantly improve the efficiency of waste disposal from the WCP, by means of a combined slimes and tailings circuit. This system provides the added benefit of improving the quality of recycled water for further utilisation in processing activities.

At the Picton MSP, the first phase of debottlenecking work associated with the 5.25 Mtpa Operating Plan included initial pipework modifications and reconfiguration of the CoronaStats as well as changes to remove ultra-fines from the circuit. Revised material handling practices were also initiated in order to reduce moisture levels. Further modifications are planned to be undertaken in 2018, with a major shutdown planned to complete a dryer upgrade, and further changes to pipework and magnetic separation equipment. These changes, together with those completed and planned at Keysbrook in the March quarter, are anticipated to deliver a significant uplift in throughput, recovery and production.

Whilst every effort was made to minimise the impact of these activities on day to day operations, there were periods of disruption necessary to implement changes at both Keysbrook and Picton. Operating costs in the period were impacted by disruptions related to the upgrade works with C1 unit cash costs increasing to an average of \$557 / dmt for the half year.

Final product sales for the half year ending 31 December 2017 for all products totalled 29,750dt (2016: 20,227dt). Total sales revenue for the half year ending 31 December 2017 totalled \$19.123m (2016: \$14.095m). Key operating statistics for the period ending 31 December 2017 are shown below.

Production	Unit	31 Dec 17	31 Dec 16
Ore Mined	dt	1,841,500	2,004,369
Ore Processed	dt	1,583,265	1,853,016
Mined Grade	% HM	3.28	2.63
WCP Availability	%	88.6	78.4
MSP Availability	%	94.5	93.2
HMC Production (WCP)	dt	53,239	48,962
HMC Processed (MSP)	dt	51,394	44,093
L70	dt	16,449	6,625
L88	dt	12,516	14,943
Zircon Concentrate	dt	10,286	7,446
Total Products	dt	39,251	29,014
Sales			
L70	dt	9,406	-
L88	dt	11,126	13,093
Zircon Concentrate	dt	9,218	7,134
Total	dt	29,750	20,227

3.2.2 Geology & Exploration

In October 2017 the Company released an updated Keysbrook Mineral Resource of 146.8 Mt grading 2.0% Total Heavy Minerals (THM), and an updated Ore Reserve of 58.0Mt grading 2.3% THM as at 30 June 2017. The revised estimates included a reduction of 7.5Mt from depletion, dilution and sterilisation by mining since operations commenced, and 6.6Mt from other technical adjustments identified during the review process.

The updated Mineral Resource and Ore Reserve Statement substantiates increasing confidence in the Keysbrook Deposit, with 86% of the total Mineral Resource now classified as Measured (from 71% previously) and 92% of the total Ore Reserve now classified as Proved (from 75% previously). The Mineral Resource remains open to the north, west, and south west within areas that will be progressively tested by further drilling over the life of the operation.

Preparations were also completed for a major grade control drilling program comprising 600 holes across areas scheduled for mining during 2018.

DIRECTORS' REPORT

3.2.3 Corporate

At the end of the half year, the group held \$5.06m in cash and undrawn credit facilities of \$0.15m.

As previously announced, the Company is currently undertaking a financial restructuring initiative with the assistance of corporate financial advisors Northcott Capital, in collaboration with RCF and the Company's Senior Debt provider RMB Australia Holdings Limited ("RMB"). Significant progress was made on the refinance initiative during the period, including the completion of an independent technical expert's report and the commencement of engagement activities with prospective lenders. The restructuring is being pursued with the aim of delivering a more robust, transparent, simple and cost-effective financial and capital structure for the Company to better realise the long-term value opportunity presented by the Keysbrook Project. Completion of the financial restructuring is now targeted for the second half of 2018.

Total issued capital at 31 December 2017 was 230,552,731 ordinary shares with a further 3,800,000 unlisted options with varying exercise prices and maturity dates. Subsequent to half year end, MZI issued 7,412,843 shares to RCF in lieu of interest payments, increasing RCF's shareholding in the Company to 50.23%.

In early December, shareholder Rich Mark Development (Group) Pty Ltd ("Rich Mark") advised it had increased its shareholding in MZI from approximately 7.4% to 8.6%. Subsequent to the half year end, Rich Mark announced a further increase in shareholding to 8.93%. Shortly thereafter, Rich Mark, together with 4.2% shareholder Accent Resources NL and 0.06% shareholder Mr Jie You reported their association, resulting in an overall associated interest of 13.19%.

On 27 December 2017 the Company announced the retirement of Non-Executive Director Dr Steven Ward from the Board of MZI.

Included in the Consolidated Interim Financial Statements for the half-year ended 31 December 2017 is an independent auditor's review report which includes an Emphasis of Matter paragraph in regard to the existence of a material uncertainty that may cast doubt about the Group's ability to continue as a going concern. For further information, refer to Note 2 to the financial statements, together with the auditor's review report.

The Directors consider that the Group has a demonstrated track record of successfully raising funds and restructuring financing facilities and the Directors are confident that the Group will be able to secure funding sufficient to meet the requirements to continue as a going concern.

4 Events Subsequent to the end of the Reporting Period

On 5 January 2018, the Company issued 7,412,843 fully paid ordinary shares at an issue price of \$0.1275 per share to RCF for payment of interest for the December 2017 quarter, associated with the Keysbrook finance facilities.

On 29 January 2018, 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 with provision for the 1 April repayment date to be extended at RCF's discretion. Funding was received on 31 January 2017.

5 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 Legislative Instrument 2016/191. The Company is an entity to which this class order applies.

6 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 7 of this financial report.

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



M Purvis
Managing Director
Perth, Western Australia
8 March 2018



Auditor's Independence Declaration

As lead auditor for the review of MZI Resources Limited for the half-year ended 31 December 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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
8 March 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2017

7 Financial Statements

7.1 Consolidated Statement of Comprehensive Income

	Note	31 Dec 17 \$'000	31 Dec 16* \$'000
Continuing Operations			
Revenue from sales	4	19,123	14,095
Costs of production	4	(13,637)	(11,435)
		5,486	2,660
Depreciation and amortisation	4	(5,975)	(5,533)
Other operating costs relating to sales	4	(4,677)	(4,663)
Gross Loss		(5,166)	(7,536)
Other revenue	4	7	18
Other income	4	27	-
Corporate expense	4	(2,282)	(2,946)
Other expenses	4	-	(46)
Gain /(Loss) on foreign exchange	4	1,805	(2,788)
Fair value movements on financial instrument derivatives	4	2,188	(1,041)
Loss before Finance and Tax		(3,421)	(14,339)
Fair value movement on financial instrument embedded derivative	4	1,631	1,143
Finance expenses	4	(9,549)	(7,924)
Loss before Tax		(11,339)	(21,120)
Tax expense		-	-
Loss after Tax from Continuing Operations		(11,339)	(21,120)
Attributable to:			
Equity holders of the parent		(11,339)	(21,120)
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		47	367
Total Comprehensive Loss for the Year		(11,292)	(20,753)
Attributable to:			
Equity holders of the parent		(11,292)	(20,753)
Basic and diluted loss per share (cents per share)		(0.05)	(0.10)

The accompanying Notes form part of these Financial Statements.

* Refer to Note 12 for details regarding the restatement as a result of an error identified.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

7.2 Consolidated Statement of Financial Position

	Note	31 Dec 17 \$'000	30 Jun 17 \$'000
Current Assets			
Cash and cash equivalents	5(a)	5,067	10,656
Trade and other receivables	5(b)	304	657
Inventories	6(a)	10,089	4,734
Other current assets		615	954
Other financial assets	5(c)	1,074	1,581
Total Current Assets		17,149	18,582
Non-Current Assets			
Trade and other receivables		682	682
Other financial assets	5(c)	64	155
Property, plant and equipment		86,104	88,210
Exploration and evaluation expenditure		1,082	886
Mine development expenditure		41,943	43,131
Total Non-Current Assets		129,875	133,064
Total Assets		147,024	151,646
Current Liabilities			
Trade and other payables		13,476	9,227
Provisions		2,924	3,024
Other financial liabilities	5(d)	580	2,321
Borrowings	5(e)	58,037	45,759
Total Current Liabilities		75,017	60,331
Non-Current Liabilities			
Provisions		7,139	6,935
Other financial liabilities	5(d)	1,978	3,604
Borrowings	5(e)	73,684	82,250
Total Non-Current Liabilities		82,801	92,789
Total Liabilities		157,818	153,120
Net Assets / (Liability)		(10,794)	(1,474)
Equity			
Share capital	7(a)	119,792	117,908
Reserves		3,332	3,197
Accumulated losses		(133,918)	(122,579)
Total Equity		(10,794)	(1,474)

The accompanying Notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2017

7.3 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 2016	114,041	(2,045)	(1,646)	2,298	1,052	(91,171)	22,529
Loss for the half-year						(21,120)	(21,120)
Other comprehensive income	-	367	-	-	-	-	367
Total Comprehensive Loss for the Half-Year	-	367	-	-	-	(21,120)	(20,753)
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	1,919	-	-	-	-	-	1,919
Recognition of share-based payments	-	-	20	274	-	-	294
Balance at 31 December 2016	115,960	(1,678)	(1,626)	2,572	1,052	(112,291)	3,989
Balance at 1 July 2017	117,908	1,114	(1,541)	2,572	1,052	(122,579)	(1,474)
Loss for the half-year						(11,339)	(11,339)
Other comprehensive income	-	47	-	-	-	-	47
Total Comprehensive Loss for the Half-Year	-	47	-	-	-	(11,339)	(11,292)
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	1,884	-	-	-	-	-	1,884
Recognition of share-based payments	-	-	88	-	-	-	88
Balance at 31 December 2017	119,792	1,161	(1,453)	2,572	1,052	(133,918)	(10,794)

The accompanying Notes form part of these Financial Statements.

* Refer to Note 12 for details regarding the restatement as a result of an error identified.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2017

7.4 Consolidated Statement of Cash Flows

	Note	31 Dec 17 \$'000	31 Dec 16 \$'000
Cash Flows from Operating Activities			
Receipts from customers		21,911	24,846
Interest received		7	17
Payments to suppliers and employees (inclusive of GST)		(25,257)	(24,440)
Finance costs		(1,925)	(3,520)
Net Cash Flows from Operating Activities		(5,264)	(3,097)
Cash Flows from Investing Activities			
Payments for exploration and evaluation		(196)	(264)
Payments for property, plant and equipment		(2,376)	(5,418)
Other income from investing		1,023	-
Net Cash Flows from Investing Activities		(1,549)	(5,682)
Cash Flows from Financing Activities			
Share issue costs		-	(11)
Proceeds from borrowings		6,570	22,473
Repayment of borrowings		(5,296)	(2,932)
Net Cash Flows from Financing Activities		1,274	19,530
Net (decrease)/increase in cash and cash equivalents		(5,539)	10,751
Cash and cash equivalents at the beginning of the year		10,656	2,500
Effect of exchange rate fluctuations on cash held		(50)	(145)
Cash and Cash Equivalents at the End of the Year	5(a)	5,067	13,106

The accompanying Notes form part of these Financial Statements.

8 Notes to the Financial Statements

BASIS OF PREPARATION	13
Note 1: Corporate Information	13
Note 2: Summary of Significant Accounting Policies.....	13
Note 3: Segment Reporting	15
Note 4: Revenue and Expenses	16
Note 5: Financial Assets and Liabilities	17
Note 6: Non-Financial Assets and Liabilities	20
Note 7: Equity	20
Note 8: Cash Flow Information	21
Note 9: Contingent Assets and Liabilities	21
Note 10: Commitments	21
Note 11: Events Occurring After the Reporting Period.....	21
Note 12: Restatement of Prior Year Error	21

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 condensed consolidated interim financial statements of MZI Resources Ltd and its subsidiaries (collectively, the "Group") for the half-year ended 31 December 2017 were authorised for issue in accordance with a resolution of Directors on 6 March 2018.

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.

Note 2: Summary of Significant Accounting Policies

(a) Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by MZI Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(b) Going Concern

The consolidated interim 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.

During the half year ended 31 December 2017, the Group incurred a loss after tax of \$11.339m and at the close of the period, the group had a net liability of \$10.794m. Cash outflows from operational activities were \$5.264m, reflecting the continued ramp up of operations during the period. At half year end the Group held cash and cash equivalents of \$5.067M and had a working capital deficit, inclusive of provisions and financial instruments, of \$57.868m. Current liabilities include the Additional Working Capital Facility of \$37.440m provided by RCF and presently due for repayment on 1 April 2018. 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 currently being pursued. As previously announced, the Company is currently undertaking a financial restructuring initiative with the assistance of corporate financial advisors Northcott Capital, in collaboration with RCF and the Company's Senior Debt provider RMB Australia Holdings Limited ("RMB"). Refer also to note 5(e) for further information in relation to loans and borrowings. Significant progress was made on the refinancing during the period including the completion of the independent technical expert's report and the commencement of engagement activities with prospective lenders. Completion of the financial restructuring is now targeted for the second half of 2018.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2017

additional funding to provide the necessary working capital for the Company to deliver the higher throughput 5.25Mtpa Operating Plan for the Keysbrook Project and to continue as a going concern.

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.

(c) Comparatives

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current half-year ended 31 December 2017.

(d) Adoption of new and revised Accounting

The accounting policies adopted in preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the half year ended 31 December 2017, except for the adoption of new standards and interpretations noted below.

(e) Impact of Accounting Standards issued but not yet applied by the Group

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 31 December 2017 are outlined below.

- ▶ **AASB 9 Financial Instruments (effective from 1 January 2018)** - AASB 9 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 effect on 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.

- ▶ **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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

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.

- **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 has 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.

Note 3: Segment Reporting

31 Dec 17	Tiwi Island Projects \$'000	Keysbrook Project \$'000	Unallocated Corporate / Other \$'000	Consolidated \$'000
Segment revenue - external	-	19,123	-	19,123
Other revenue	-	6	2	8
Finance expenses	-	(9,333)	(216)	(9,549)
Segment results	(505)	(8,621)	(2,213)	(11,339)
Segment assets	635	143,306	3,083	147,024
Segment liabilities	694	155,500	1,624	157,818

31 Dec 16	Tiwi Island Projects \$'000	Keysbrook Project \$'000*	Unallocated Corporate / Other \$'000	Consolidated \$'000*
Segment revenue - external	-	14,095	-	14,095
Other revenue	-	8	10	18
Finance expenses	-	(7,365)	(559)	(7,924)
Segment results	(46)	(17,436)	(3,639)	(21,120)
Segment assets	577	149,857	7,274	157,708
Segment liabilities	863	150,988	1,868	153,719

* Refer to Note 12 for details regarding the restatement as a result of an error identified.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

Note 4: Revenue and Expenses

	31 Dec 17 \$'000	31 Dec 16 \$'000*
Sales revenue		
Leucoxene and zircon sales	19,123	14,095
Costs of production		
Production	12,659	10,787
Shipping	978	648
	13,637	11,435
Depreciation and amortisation		
Depreciation	4,786	4,191
Amortisation	1,189	1,342
	5,975	5,533
Other operating costs relating to sales		
Care and maintenance		
Royalties and landowner payments	892	508
Operational support costs	3,785	4,155
	4,677	4,663
Other revenue		
Interest income	7	18
	7	18
Other income		
Sundry income	27	-
	27	-
Corporate expenses		
Audit and review fees	22	54
Consulting fees	96	212
Travel and accommodation	42	66
Occupancy costs	107	199
Share-based payments - employee benefits	86	294
Salaries and wages	1,385	1,531
Depreciation of non-mine assets	92	104
Other	225	228
Directors' fees	227	258
	2,282	2,946
Other expenses		
Impairment of exploration and evaluation	-	46
	-	46
Loss on foreign exchange		
Net (gain) / loss on foreign exchange	1,805	2,788
	1,805	2,788
Fair value movements on financial instrument derivatives		
Fair value movement on contractual derivatives – (gain) / loss	1,192	1,041
Realised movement on currency hedges – loss / (gain)	996	-
	2,188	1,041
Fair value movements on financial instrument embedded derivatives		
Fair value movement on loan derivatives – (gain) / loss	1,631	(1,143)
Finance expenses		
Interest and fees on borrowings	9,549	7,924

* Refer to Note 12 for details regarding the restatement as a result of an error identified.

Note 5: Financial Assets and Liabilities

(a) Cash and Cash Equivalents

	31 Dec 17 \$'000	30 Jun 17 \$'000
Cash at bank	5,067	10,656

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

	31 Dec 17 \$'000	30 Jun 17 \$'000
Current		
Other receivables	304	657
	304	657
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).

(c) Other Financial Assets

	31 Dec 17 \$'000	30 Jun 17 \$'000
Current		
Other financial assets (i)	-	645
Cash flow hedges (ii)	1,074	936
	1,074	1,581
Non-Current		
Cash flow hedges (ii)	64	155

(i) Other Financial Assets

Refer to Note 5(d) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

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 half year ended 31 December 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 \$0.047m (Dec 2016: Gain of \$0.367m) relating to the valuation of the hedging instruments at 31 December 2017 was included in other comprehensive income.

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 31 December 2017 is \$0.024m (Dec 2016: \$0.029m).

(d) Other Financial Liabilities

	31 Dec 17 \$'000	30 Jun 17 \$'000*
Current		
Other financial liabilities (i)	-	110
Embedded derivatives (iii)	580	2,211
Total	580	2,321
Non-current		
Other financial liabilities (i)	225	225
Embedded derivative (ii)	1,753	3,379
Total	1,978	3,604

* Refer to Note 12 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

In November 2017, the Leucoxene 88 (“L88”) offtake agreement was entered into with a third party. 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 31 December 2017, the fair value of the embedded derivative associated with the L88 contract was a non-current financial liability of \$1.753m (June 2017: Asset \$0.645m and a non-current financial liability of \$3.379m).

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 than the contractual revenue in the final two years. The nominal discount rate used is 10.3%. The forecast revenue price is based on independent price forecasts against the Group’s forecast sales volumes of L88.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

(iii) Embedded derivatives - Finance Facilities

During the 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 12 for more detail on prior year restatements.

At 31 December 2017, the fair value of the embedded derivative associated with the Convertible Loan facility has a fair value of \$0.232m (June 2017: \$1.204m).

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 31 December 2017, the fair value of the embedded derivatives associated with the Bridge Finance facilities was \$0.347m (June 2017: \$1.007m).

The Convertible Loan facilities are provided under an agreement with Resource Capital Fund VI L.P ("RCF").

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.

(e) Loans and Borrowings

	31 Dec 17 \$'000	30 Jun 17 \$'000
Current		
Bank loan	242	242
Insurance premium funding	-	340
RMB Working capital facility	3,846	3,900
Hire purchase	3,497	3,756
Other party settlement	258	349
Other party loan 1	1,850	1,100
Other party loan 2	248	200
Other party loan 3	400	400
RCF Additional Working Capital facility (i)	37,440	28,972
RMB Senior facility	10,256	6,500
Total	58,037	45,759
Non-Current		
Bank loan	201	322
Other party loan 1	3,094	4,642
Other party loan 2	508	755
Other party loan 3	202	625
RCF Bridge facility	9,834	9,898
RCF Convertible loan	21,963	20,858
RMB Senior facility	33,974	39,652
Hire purchase	3,908	5,498
Total	73,684	82,250

(i) RCF Additional Working Capital Facility

On 18 September 2017, the group amended the Additional Working Capital Facility agreement with Resource Capital Fund VI L.P. ("RCF") to include an additional drawdown in funds in the amount of US\$5.00m.

On 7 November 2017, the group announced a further amendment to the Additional Working Capital facility agreement with RCF to extend the repayment date of that facility from 1 December 2017 to 1 April 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

The key terms of the Additional Working Capital Facility are as follows:

- ▶ 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 April 2018 with the provision to extend at RCF's discretion
- (ii) Financial Liabilities Carried at Amortised Cost

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

Note 6: Non-Financial Assets and Liabilities

(a) Inventories

	31 Dec 17 \$'000	30 Jun 17 \$'000
Heavy mineral concentrate and other intermediate stockpiles - at cost	4,136	62
Heavy mineral concentrate and other intermediate stockpiles - at NRV	-	3,572
Finished goods stockpiles - at NRV	5,001	223
Stores and consumables - at cost	952	877
Total	10,089	4,734

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

The NRV write-down for the half-year ended 31 December 2017 was \$0.905m (June 2017: \$0.924m).

Note 7: Equity

(a) Issued Capital

Ordinary shares on issue

	31 Dec 17 \$'000	30 Jun 17 \$'000
230,552,731 (30 June 2017: 218,082,824) ordinary fully paid shares	119,792	117,908

Movements in ordinary share capital

	No. of Shares	\$'000
Issued shares:		
At 1 July 2017	218,082,824	117,908
Shares issued pursuant to a Facility Agreement (i)	12,469,907	1,884
Share issue costs	-	-
As at 31 December 2017	230,552,731	119,792

- (i) Shares issued pursuant to a Facility Agreement as consideration for interest.

Note 8: Cash Flow Information

During the half-year ended 31 December 2017, the following non cash financing transactions occurred:

- ▶ 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 5 October 2017, the Company issued 7,734,766 fully paid ordinary shares at an issue price of \$0.1207 per share to RCF for payment of interest for the September 2017 quarter, associated with the Keysbrook finance facilities.

Note 9: Contingent Assets and Liabilities

The Directors are not aware of any contingent assets or contingent liabilities as at 31 December 2017.

Note 10: Commitments

The Directors are not aware of any capital or other commitments as at 31 December 2017.

Note 11: Events Occurring After the Reporting Period

On 5 January 2018, the Company issued 7,412,843 fully paid ordinary shares at an issue price of \$0.1275 per share to RCF for payment of interest for the December 2017 quarter, associated with the Keysbrook finance facilities.

On 29 January 2018, 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. Funding was received on 31 January 2017.

Note 12: 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 and 31 December 2016.

The financial impact of these restatements is an increase to the loss before tax for the half year ended 31 December 2016 amounting to \$0.545m, representing the movement in the restated value of embedded derivatives from the year ended 30 June 2016 to the half year ended 31 December 2016.

9 Directors' Declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

Martin Purvis
Managing Director

A handwritten signature in blue ink, appearing to read 'M. Purvis', is written over a faint, light blue circular stamp or watermark.

Perth, Western Australia
8 March 2018

10 Independent Auditor's Review Report



Independent auditor's review report to the members of MZI Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MZI Resources Limited (the company), which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for MZI Resources Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

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Conclusion

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

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

Material uncertainty related to going concern

We draw your attention to Note 2(b) in the half-year financial report, which indicates that the consolidated entity has net current liabilities of \$57.868 million as at 31 December 2017 and recorded a net loss after tax of \$11.339 million for the half-year then ended. Note 2(b) highlights that the Company needs to raise additional funding to repay or refinance existing facilities which are due from 1 April 2018 or agree amendments to the terms of the existing facilities to continue as a going concern. These conditions, along with other matters set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

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

Ben Gargett
Partner

Perth
8 March 2018



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

PO Box 3011
East Perth, Western Australia 6892

www.mzi.com.au