mzi resources

and its controlled entities

ABN 52 077 221 722

ANNUAL FINANCIAL REPORT
For the year ended 30 June 2018

CONTENTS

The Directors' Report includes all items numbered 2 to 13 above

1 Corporate Directory

1.1 Board of Directors

Rodney Baxter	Independent Non-Executive Chairman
Martin Purvis	Managing Director
Chi To (Nathan) Wong	Non-Independent Non-Executive Director
Maree Arnason	Independent Non-Executive Director
Ronald Beevor	Non-Independent Non-Executive Director
Yuzi (Albert) Zhou	Non-Independent Non-Executive 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.

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 2018.

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 Chairman for whole of the financial year.
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:	Chair of the Nomination and Remuneration Committee Member of the Audit and Risk Committee and the Sustainability Committee.
Directorships held in other listed entities in the last three years:	None

Martin Purvis	
Managing Director	Mr. Purvis was Managing Director for the whole of the financial year.
Qualifications:	BSc Mining Engineering (Hons), GAICD
Experience:	Mr. Purvis qualified as a Mining Engineer at Leeds University in the UK and has over 35 years' experience in the industry. He has worked in senior management and executive roles across several continents and cultures, managing all aspects of the business chain from exploration and project development, production and operations, through to sales and marketing and mine rehabilitation. During his career he has worked in a broad range of diversified mineral commodities including base metals, precious metals, industrial and bulk commodities. He is a Graduate member of the Australian Institute of Company Directors.
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 to join MZI)

Maree Arnason	
Independent Non-Executive Director	Ms. Arnason was an Independent Non-Executive Director for the whole of the financial year.
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 Member of the Nomination and Remuneration Committee and the Audit and Risk Committee.
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 plants 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)
Special responsibilities:	Member of the Sustainability Committee from 30 January 2018
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:	Chair of the Audit and Risk Committee from 7 November 2017. Member of Nomination and Remuneration Committee.
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).

Yuzi (Albert) Zhou	
Non-Executive Director	Mr. Zhou was appointed as a Non-Executive Director on 28 February 2018.
Qualifications:	B.Eng.
Experience:	Mr. Zhou is a qualified Engineer with over 30 years industry experience across a broad range of fields in the steel, nickel and iron ore commodities trading sectors. Mr. Zhou's work history includes senior roles with major Chinese steel group Shougang Iron & Steel Company, international trading group Itochu China Corporation and Rio Tinto. In addition, Mr. Zhou served as Managing Director of Hong Kong based China Nickel Resources Holdings Limited Company for four years.
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 Chairman of Accent Resources NL

Stephen Ward	
Independent Non-Executive Director	Dr. Stephen Ward retired from the Board of Directors on 27 December 2017.
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 Sustainability Committee up to 27 of December 2017
Directorships held in other listed entities in the last three years:	None

John Traicos	
Company Secretary	Mr. Traicos was Company Secretary for the whole of the financial year.
Qualifications:	B.A. (Hons), BL, LLB
Experience:	Mr. Traicos is a lawyer with more than 30 years' experience in legal and corporate affairs in Australia and Southern Africa. He has acted as a legal and commercial manager and Company Secretary to several Australian resource companies and has been involved in resource projects and acquisitions in Australia, Africa and Indonesia.
Interest in Shares and Options at the date of this report:	340,815 ordinary shares 100,000 unlisted options ($0.65, 1 December 2019)

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		Nomination and Remuneration Committee		Audit and Risk Committee		Sustainability Committee	
		Held	Attended	Held	Attended	Held	Attended	Held	Attended
R Baxter		19	19	3	3	2	2	9	9
M Purvis		19	19	-	-	-	-	-	-
M Arnason		19	19	3	3	2	2	9	9
CT Wong		19	13	-	-	-	-	3	2
R Beevor		19	16	3	3	2	2	-	-
A Zhou	(i)	4	4	-	-	-	-	-	-
S Ward	(ii)	10	10	-	-	-	-	3	3

(i) Mr. Zhou was appointed to the Board of Directors on 28 February 2018.

(ii) Dr. Ward retired from the Board of Directors on 27 December 2017 and attended all board meetings up to that date.

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 2018 applicable to owners of the Parent after income tax was $35,423,000 (2017: $31,408,000).

4.2 Review of Operations

Keysbrook

During the year to 30 June 2018 the Company progressed through a significant turnaround in operational performance resulting from plant upgrades designed and implemented during the period. In December 2017, MZI commenced modification works on its Keysbrook processing facilities and Picton Mineral Separation Plant ("MSP"). These works were undertaken to increase MZI's mineral throughput capacity from approximately 4Mtpa to 5.25Mtpa in order to reduce unit costs and improve operating margins across the business. The Group completed these works in March 2018, with the modifications being implemented in parallel with day to day operations so as to maintain cashflow and satisfy customer shipments. A number of planned shutdowns were undertaken to install the modifications with each new element commissioned individually. In addition to the physical plant modifications, continuous improvement programs are underway such as reliability focused root cause analysis and the subsequent elimination of reliability defects.

The Keysbrook and Picton facilities are now functioning in "steady-state" in accordance with the capacities of the 5.25Mtpa operating plan, with plant reliability and availability matching targeted industry standards. The uprated operating performance served to increase 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 96,848dt at the Keysbrook WCP
- full year saleable production of 74,681dt (all products)

The table below provides further detail of the key physical statistics from the Keysbrook operations for the year ended 30 June 2018 compared to the prior year.

Production	Units	Jun 2018	Jun 2017
Ore Mined	dt	4,018,346	3,967,154
Ore Processed	dt	3,397,436	3,620,656
Mined Grade	%HM	2.89	2.68
HMC Production (WCP)	dt	96,848	93,118
HMC Processed (MSP)	dt	99,366	89,765
L70 Produced	dt	27,618	16,952
L88 Produced	dt	26,442	29,802
Zircon Concentrate Produced	dt	20,621	15,501
Total Products	**dt**	**74,681**	**62,255**
Sales			
L70	dt	24,022	17,126
L88	dt	23,124	29,538
Zircon Concentrate	dt	18,803	15,809
Total Sales	**dt**	**65,949**	**62,473**

Total saleable production for the financial year rose 20% compared to the prior year with 74,681 tonnes produced while sales over the same period increased by 5% to 65,949 tonnes sold.

Following the plant upgrades, mining volumes at Keysbrook increased substantially in the latter part of the year. Prior to these changes, MFU feed rates were restricted due to WCP feed constraints and, as a consequence, total ore tonnes mined were only marginally up compared to the prior year. Ore processed over the course of the year declined as operations were impacted by shutdowns necessary to install and implement plant modifications. The commissioning and integration process disrupted operations longer than expected resulting in the Company only achieving the planned steady-state production levels towards the latter stages of the financial year.

At the wet concentrator plant, HMC production increased by 3,700 tonnes over the year despite the challenges presented by plant modifications during the period. Following successful trials, the introduction of co-disposal of tails and slimes during the latter part of the year has enabled the plant to deliver throughput rates required for the 5.25Mtpa operating plan, with the WCP now able to handle high slimes feed material. The addition of a trommel to the production sequence in early 2018 caused considerable unplanned downtime through performance issues, including a number of failures of the trommel rims and tyres when operating at steady-state load capacity. Following consultation with various specialists the trommel rims and tyres were replaced with a superior alternatives and the trommel has since demonstrated it can deliver throughput rates as necessary for the 5.25Mtpa operating plan.

Throughput at the MSP improved by approximately 11% compared to the prior period with an upward trend evidenced in the last quarter of the year following a number of plant improvements. During March 2018 the Company modified and uprated the fluid dryer, while other improvements were also made to the magnetic separation unit along with modifications to the MSP's piping and screen decks. The alterations required additional planned shutdowns of the MSP which in turn limited processing capacity during the period however the changes have delivered a robust uplift in MSP performance in the last production runs of the financial year. The full benefit of plant upgrades during the year are yet to be realised however recent plant availability and operational performance indicate significant progress with both Keysbrook and Picton operating capabilities.

Sales

Total sales of finished product increased by 3,476 tonnes or approximately 5% over the year, despite the limitations to production caused by scheduled and unscheduled processing downtime over the period. Total sales revenue recognised over the period increased by $3m in comparison to the previous year, reflecting the growth in tonnages produced.

Mineral Sands Market

The mineral sands market has continued to strengthen with strong economic growth lead by the Western economies particularly in the USA and Europe. Strong demand for pigment has reduced inventory to a low level, putting upward pressure on prices, creating a favourable outlook for the industry. Despite the growing concerns about economic nationalism and the potentially negative impact on global trade there appears adequate momentum to keep the industry on a positive footing well into the future.

Compared to the previous cycles there does not seem to be the same amount of latent oversupply that should sharply impact the market. Even China which historically has the capacity to rapidly expand supply, has been curtailed by a lack of technology and increased environmental oversight which has crimped their production.

Western pigment producers have tended to rationalise their existing operations and improve operating margins rather than increase output by expanding capacity. In the past, there was a tendency for producers to expand capacity to attempt to achieve increased market share, which inevitably created over supply and forced down prices. However, improved market discipline seems to have resulted in stability at higher prices. The outlook for chloride pigment producers and associated feedstock producers remains very positive.

In comparison, Chinese sulphate pigment producers are experiencing weaker demand due to oversupply in domestic markets and increasing cost pressure to meet the demands of the export market. As a result, they are faced with the need to restructure their industry, which will take time and require a greater level of expertise not currently available. The effort to expand chloride pigment capacity in China will be a positive for high grade chloride feedstocks such as chloride slag, rutile and leucoxene.

There have been a number of supply disruptions over the past year, which has created some additional uncertainty and underscored the need for reliable supply. Investment in new mines is being accelerated, but it will be some time before these new operations come into production. As a result, industry commentator TZMI is predicting that TiO2 feedstock supply will remain in deficit for at least another five years.

The improved outlook for titanium feedstock is being felt right across the spectrum of applications including pigments, titanium metal and welding fluxes which all rely on high quality feedstock.

Zircon prices have continued to strengthen during the year as a result of the larger producers limiting supply into the market. The limited supply along with a continued increase in demand has led to shortages and a strong level of enquiry as end users seek to secure supply as their traditional sources start to dwindle.

Zircon production is coming under pressure as existing mines reach the end of their life and in some cases face imminent closure. A lack of investment over the past few years means that new projects are still some way off meaning shortages will be felt for some time.

There is some concern regarding potential substitution and further drifting, but as long the market remains disciplined and sharp price spikes are avoided it should not be a major threat. Applications have become more specific with zircon only being used where needed or where it has a substantial performance advantage. The zircon industry has become more engaged through the Zircon Industry Association which is providing a future focus and a sense of common purpose.

Health, Safety and Environment

The Company enjoyed a successful year in health and safety thanks to the performance of its employees and contractors. A pleasing feature was a progression in safety culture and awareness across the year as revised procedures and initiatives were consolidated. This was reflected in key statistics with no lost time injuries recorded during the reporting period and a reduction in the Group rolling 12-month total recordable injury frequency rate (per 1 million hours worked) from 27.1 in the prior year to 16.0 at the close of the current year.

Acknowledging this improvement, safety performance targets were revised, including re-setting the target for the number of days since the last lost time injury. At the end of the financial year the organisation had achieved 531 days LTI free, a record for the operations.

Significant and ongoing improvements were made to the site safety management system with key elements of the system, including the Safety Plan and Permit System, updated during the period. Employee training and competency was a focus across the year, with a training needs analysis delivering greater alignment between applied training, individual roles and specific heavy machinery competency in accord with industry standards.

A comprehensive programme of environmental monitoring addressing, but not limited to noise, dust, surface water, groundwater, soil, weeds, black cockatoo habitat and pasture rehabilitation performance within and around the project area continued to be implemented throughout the year. Analysis of data flowing from the programme served to confirm ongoing compliance with regulatory requirements and provided a basis for several improvement initiatives.

During the year, an extensive noise monitoring regime was undertaken and data collected has been used to describe the complex local noise environment, to refine the project noise model that is used in day to day operational planning and as the basis for several submissions to government.

The Company revised a number of environmental management plans during the year to improve efficacy and maintain relevance. Improvement of other management plans was ongoing at year end.

All statutory reporting obligations to local, State and federal regulatory authorities were fulfilled during the year.

A further thirty hectares of pasture rehabilitation had been completed by the end of the financial year, with works ongoing. Where seasonal constraints and ground conditions impede the completion of the full rehabilitation programme, open areas are seeded with a cover crop to stabilise the ground surface and achieve an early start to nutrient cycling and soil improvement processes. Eight hectares of native species were planted in keeping with a revegetation plan aiming to link local conservation areas.

A number of rehabilitation initiatives were completed during the reporting period. The translocation of two hundred grass trees (Kingia australis), an iconic local species, to a conservation area was completed. Early results point to the translocation, which is generally recognised as difficult to achieve, being successful. Several trials and materials testing programs have been completed in collaboration with the state Department of Primary Industries and Regional Development and a local soil products/compost manufacturer. Results have confirmed benefits of the Group's rehabilitation practises for improved nutrient and water retention and optimisation for future works.

Community

Community engagement activities with key stakeholders remained a priority for the business and are considered essential to maintaining strong and enduring relationships with neighbours and stakeholders.

The Company continued its engagement efforts throughout the year which included site visits and presentations for key interest groups, bi-annual newsletter, Keysbrook project update letters to nearest neighbours and one-on-one meetings.

MZI's Keysbrook Community Consultative Group (CCG) continues to meet regularly and remains an integral forum whereby elected community, local government and MZI representatives meet on a quarterly basis to discuss and share project specific information. The CCG allocated a total of $50,000 funding for the year to community groups located within both the Shire of Murray and the Shire of Serpentine Jarrahdale localities. In all, 19 community groups were funded with major partnerships being: Serpentine Food and Farm Alliance, Friends of Edenvale (Pinjarra Garden Day), Dwellingup Pumpkin festival, Murray Eventing, Pinjarra Street Festival, Murray Districts Historical Society and Jarrahdale Primary School for its Stephanie Alexander project.

In addition to this, a new local trainee was inducted into the Keysbrook operational workforce as part of an ongoing partnership with the Fairbridge Bindjareb Project. This partnership focuses on young Aboriginal men from the corrective services system and provides them with relevant workplace training and ongoing mentoring and support.

Geology and Regional Exploration

During the year, geological activities focused on supporting ongoing operations and mine planning at the Keysbrook project. In March 2018 a major air core drilling programme was undertaken, and the resulting assays were received and processed before incorporation into the mine plan for the annual update of the Reserve and Resource report.

Tiwi Islands

Activities during the year focused on addressing mine closure requirements with the objective of demonstrating that rehabilitated areas meet completion criteria and therefore do not need ongoing monitoring or maintenance. Key activities included:

- Monitoring of rehabilitation performance across the three mine site areas (Lethbridge West, Lethbridge South, Andranangoo) in September 2017. Low-level remediation works in the remaining open areas, which were former infrastructure sites (processing and camps), were also identified through this monitoring.
- Declared weed control at Andranangoo.
- Discussions with the Tiwi Land Council regarding mine closure expectations.
- Engagement with the Northern Territory Department of Primary Industry & Resources ("DPIR") to present an updated Mine Closure Plan and discuss the closure status of rehabilitation areas.

Documents submitted to DPIR included the updated Mine Closure Plan and a Rehabilitation Assessment Report for the Puwanapi (expired exploration licence) confirming the negligible impact of prior exploration activity on the licence area.

A comprehensive mine area rehabilitation report (that incorporates all rehabilitation assessments undertaken to date) to demonstrate achievement of completion criteria and support an application for partial bond recovery remained in preparation at year end.

Corporate

At the close of the financial year, the Group held $7.2m in cash while total share capital on issue was 246,129,415 ordinary shares and 2,800,000 unlisted options. Subsequent to the end of the year, a further 12,544,065 shares were issued to RCF in lieu of interest payments, increasing RCF's shareholding in MZI to 54.21%.

During the year, the Group announced an addition to the funding arrangements previously provided by RCF. The additional funding was established as a 3-year US$61m Term Loan to be drawn in 2 Tranches, with Tranche A drawn down on 31 May 2018. Funds of US$53.5m from Tranche A were received and were applied to repay all amounts owing under the Additional Working Capital Facility, to support working capital requirements of the business and to continue planned capital expenditure programs and land access payments.

Tranche B of the Term Loan amounting to US$7.5m is expected to be utilised during the subsequent financial year to further support Keysbrook operations and deliver a stable working capital platform for the Group.

During the period, MZI announced the retirement of Dr. Steve Ward from the Board, effective from 27 December 2017 and the appointment of Mr. Albert Zhou to the Board of Directors on 8 March 2018.

The Group continued to assess its capital structure and existing financing arrangements with the assistance of Corporate Financial Advisor, Northcott Capital Limited. 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.

Included in the Consolidated Financial Statements for the year ended 30 June 2018 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:

- Consolidate and progress the benefits from the operational improvements achieved in the prior year with increased production, sales revenue and lower unit costs.
- Potential delivery of significant additional value with the creation of a premium zircon product.
- Progression of refinancing initiatives with outcomes targeted in H1 2019.
- Conduct mineral sands exploration and assessment of other development opportunities in Keysbrook and the surrounding region as well as MZI's tenements in the Tiwi Islands.

5 Events Subsequent to the end of the Reporting Period

On 5 July 2018, the Company issued 12,544,065 fully paid ordinary shares at an issue price of $0.0779 per share to RCF for payment of interest for the June 2018 quarter, associated with the Keysbrook finance facilities.

On 13 July 2018, the Company announced the draw-down of US$3.5m from Tranche B of the Term Loan Facility provided by RCF.

On 4th of September 2018, the Company received $9.5m from a research and development claim for eligible expenditure incurred during the 2015/16 taxation year. The claim was recorded as a receivable as at 30 June 2018.

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 the Group 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 2018.

7 Options Granted Over Unissued Shares

At the date of this report, 2,800,000 fully paid ordinary shares, which are subject to options, were unissued. The terms of these options are as follows:

	Number
Exercisable at $0.65 each on or before 1 December 2019	2,800,000
Total	**2,800,000**

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 20 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 bought 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 Legislative Instrument 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 29 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 and regulations of the Corporations Act 2001. 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		Independent Non-Executive Chairman	
Martin Purvis		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	
Yuzi (Albert) Zhou	(i)	Non-Independent Non-Executive Director	Appointed 28 February 2018
Stephen Ward	(ii)	Independent Non-Executive Director	Retired 27 December 2017
John Westdorp		Chief Financial Officer	
John Traicos		Legal Manager and Company Secretary	
Kevin Watters	(iii)	Head of Operations	Retired 28 February 2018
Graeme O'Grady		General Manager Marketing	
Neil Graham	(iv)	Head of Operations	Appointed 1 March 2018

(i) Mr. Zhou was appointed as Non-Independent Non-Executive Director on 28 February 2018.

(ii) Dr. Ward retired from his role of Independent Non-Executive Director on 27 December 2017.

(iii) Mr. Watters resigned from his position of Head of Operations effective 28 February 2018. As part of a transition process, Mr Watters was retained as a consultant for a period of 3 months from 1 March 2018 to 30 June 2018.

(iv) Mr. Graham was appointed to the role of Head of Operations commencing 1 March 2018.

13.2 Remuneration Policy and Link to Performance

The Group's remuneration policy encompasses the total value Directors and Executives receive from their employment with MZI, 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 a prudent remuneration structure is important for the Group's success.

The Board is directly responsible for the nomination and appointment of Directors and the remuneration of its Directors, Managing Director, and Senior Executives. To meet its obligations, and to address all matters pertaining to Board nominations and both Board and Executive remuneration in accordance with ASX Corporate Governance Principles, the Board of MZI established a Nomination and Remuneration Committee as part of the Company's Constitution.

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 the highest level of governance standards
- assist the Board to discharge its responsibility by overseeing nomination and remuneration policies and practices of the MZI Group
- 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 leadership talent to achieve targeted performance levels
- fairly and responsibly reward employees 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.

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 base salaries which are benchmarked regularly against independent market data for similar roles. The Company also operates short and long-term incentive schemes with the Board having absolute discretion over any offer or reward to employees in accordance with the scheme plans.

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

- base salaries reflect the market segment and market conditions in which the Group operates
- individual at-risk incentive rewards are linked to performance criteria and then subject to Board approval
- short and long-term incentive schemes incorporate targets 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 2018, 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 $26,950.

The advice considered the following key aspects of Executive remuneration and referenced practices amongst a comparator group of 19 peer group companies 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 the structure and application of short and long-term incentive schemes
- actual pay-out levels from short and long-term incentive programs in the comparator group

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 Executives. On this basis, the Board of Directors is satisfied that the recommendations were made free from undue influence from any members of the Key Management Personnel.

Whilst the independent review identified that 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 short and long-term incentive schemes to ensure alignment between shareholder interests and the potential 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 2018.

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

The tables below set out the fees (excluding superannuation) that Non-Executive Directors received to perform various roles in financial years 2017 and 2018. These fees were established 1 July 2015 and have remained unchanged since that date.

2018	$
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

2018		Board and committee fees $	Non-monetary benefits $	Super-annuation $	Options $	Total $
Non-Executive Directors						
R Baxter		137,500	-	13,062	-	150,562
M Arnason		90,000	-	8,550	-	98,550
R Beevor		85,000	-	8,075	-	93,075
CT Wong		78,931	-	-	-	78,931
A Zhou	(i)	23,333	-	2,217	-	25,550
S Ward	(ii)	54,249	1,170	4,254	-	59,673
Total		**469,013**	**1,170**	**36,158**	**-**	**506,341**

(i) Mr. Zhou was appointed to the Board of Directors on 28 February 2018.

(ii) Dr. Ward retired from his position of Independent Non-Executive Director effective 27 December 2017.

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 ending 30 June 2017, 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.

Non-monetary benefits include, where applicable, the cost to the Company of providing 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 market related fixed base salary payable in cash
- a short-term incentive scheme whereby, at the Board's discretion, the KMP may receive equity or cash rewards for meeting annual performance targets once overall business gateways are cleared
- an option to participate in a shareholder approved, long-term incentive scheme
- 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 shareholder interests and the provision of incentive schemes for Executives and Employees.

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 2018 the proportion was as follows:

Managing Director	Fixed remuneration (53%)	Target STI (21%)	Target LTI (26%)
Other Executives	Fixed remuneration (66%)	Target STI (17%)	Target LTI (17%)

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 for a particular role is reviewed as part of every recruitment process. Thereafter it is reviewed annually, on promotion or when there is a fundamental change to the responsibilities of the role. It is independently benchmarked against market data for comparable roles in the resources industry. Remuneration policy aims to take into account: general conditions in the employment market, capability, experience, value to the organisation as well as the performance of both the Company and the individual. Fixed remuneration is reviewed in December each year. The last increase in fixed remuneration for KMP was in February 2015.

Short Term Incentives (STI)

The STI is an at-risk, discretionary component of remuneration for KMP. In order to be eligible for an STI award, the Company must first exceed overall gateway measures set by the Board. Once this hurdle is cleared the individual will be rated against a range of individual and Company performance targets set at the beginning of the financial year to determine the potential value of any award. The Board then considers whether or not any STI rewards should be paid and to what extent. The Board also has the discretion to decide if any approved STI payments are made in cash or shares. In the event of the Board deciding to pay the Managing Director in MZI shares as compensation for STI performance rather than cash, the offer will also have to be approved by shareholders. Furthermore, where share-based payments are made, 75% of the shares will vest on the date of Board approval (or shareholder approval in the case of the Managing Director), whilst the remaining 25% will only vest after a further period of 12 months as a retention incentive.

Performance objectives require the achievement of strategic, operational, sustainability and financial targets and in most cases are linked to the key value drivers of the business. 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 reflect a range of up to +/- 10% of target. STI awards can vary in quantum from 14 to 40% of fixed remuneration, depending on the KMP's level in the organisation.

The Nomination and Remuneration Committee is responsible for recommending to the Board of Directors the STI gateways and performance objectives for each KMP. At the end of the financial year, the Committee assesses the extent to which the targets have been achieved. To assist in making this assessment, the Nomination and Remuneration Committee receives detailed reports and presentations on the performance of the business from Management and external market peer group data from independent remuneration consultants.

The following lists the Group's key STI performance measures for the year ended 30 June 2018:

- improved safety performance measured by outcomes from independent safety audits and the Total Recordable Injury Frequency Rate compared to the prior year
- achievement of defined targets such as final saleable product, cash operating costs, gross operating profit and total shareholder returns
- effective management of environmental conditions together with community engagement and relationships
- successful implementation of the 5.25Mtpa Operating Plan

These measures were 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 and objectives. 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 makes recommendations regarding STI payments to the Board. No KMP received any STI award for 2018 as the STI gateways were not met.

Long Term Incentives

At the start of each financial year the Board decides whether or not to offer an annual grant of equity to KMP in accordance with the terms and conditions of the Company's shareholder approved, long-term incentive scheme. The equity value offered is set at a fixed percentage equating to between 20-50% of fixed remuneration depending on the position of the KMP. Key vesting hurdles, as well as terms and conditions for the LTI scheme, are as follows:

- vesting period for each annual offer of shares is 3 years from issue date
- no award will be granted unless the Company's share price at the vesting date exceeds the share price at grant date.
- a further vesting restriction of 12 months applies before any shares awarded under the LTI scheme can be sold

50% of the available LTI award is based on the assessment of MZI's share price against a Market Performance Index, currently the ASX300, over the vesting period.

- MZI performance below 10% of ASX 300 index over vesting period - nil vesting
- between -10% and parity with ASX 300 index - up to 25% of award vests (2.5% vesting for each 1%)
- MZI outperforms ASX 300 - 3% of award vests for each 1% above parity – at 25% above index, 100% of Market Performance shares vest

The other 50% of the LTI award will be assessed for vesting based on the Compound Annual Growth Rate (CAGR) achieved in the Company's share price over the vesting period in accordance with the scales below:

- from 0% to 10% CAGR - 3% of TSR units vest for each 1% increase
- above 10% CAGR - 7% of TSR units vest for each 1% increase

13.6 Cash Value of Earnings Realised

The actual cash remuneration earned by KMP in the 2018 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 cash benefit 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 nominal 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 but have subsequently been forfeited, the accounting standards do not allow the value of the forfeiture to be taken into account.

Allocations under the STI plan made during the year ended 30 June 2018 were subject to meeting a specific threshold or gateway in order to align incentive award outcomes with shareholder interests. The gateway was not achieved over the performance period and the Board determined not to make any award under the STI plan. As a result all forms of reward for KMP under the STI plan were forfeited.

The first annual allocations made under the LTI plan were due to vest on 30 June 2018 however, the share price at the vesting date did not exceed the share price at the grant date and consequently, all grants were forfeited.

2018		Fixed remuneration (i) $	Short term incentive (ii) $	Long term incentive (iii) $	Total actual remuneration $
Executive Directors					
M Purvis		503,087	-	-	503,087
Other KMP					
J Westdorp		377,017	-	-	377,017
G O'Grady		250,932	-	-	250,932
J Traicos		292,429	-	-	292,429
K Watters	(iv)	250,770	-	-	250,770
N Graham	(v)	128,385	-	-	128,385
Total		**1,802,620**	**-**	**-**	**1,802,620**

(i) Fixed remuneration includes base salary, non-monetary benefits and superannuation 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 2018 and 30 June 2017 have been forfeited due to failure to meet the profit gateway set by the Board.

(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 was 30 June 2018. All grants were forfeited.

(iv) Mr. Watters resigned from his position of Head of Operations effective 28 February 2018.

(v) Mr. Graham was appointed Head of Operations effective 1 March 2018

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 2018.

Statutory details of remuneration provided to the Managing Director and other KMP are as follows:

2018		Salary	Fixed Remuneration: Non-monetary benefits	Fixed Remuneration: Super-annuation	Fixed Remuneration: Long Service Leave	Variable Remuneration (At Risk): Short Term Incentive	Variable Remuneration (At Risk): Long Term Incentive	Perfor-mance related	Total
		$	$	$	$	$	$	%	$
Executive Director									
M Purvis	(i)	456,201	25,834	43,339	-	-	-	0%	525,374
Other KMP									
J Westdorp		340,000	27,370	32,300	-	-	111,690	23%	511,360
G O'Grady		225,577	2,503	21,430	-	-	50,370	17%	299,880
J Traicos		267,061	22,115	20,652	38,641	-	57,129	15%	405,598
K Watters	(ii)	219,178	10,770	20,822	-	-	-	0%	250,770
N Graham	(iii)	112,329	15,365	10,671	-	-	-	0%	138,365
Total		**1,620,346**	**103,957**	**149,214**	**38,641**	**-**	**219,189**	**10%**	**2,131,347**

(i) Mr. Purvis declined an award offer of MZI shares valued at $249,770 as at the offer date (1,248,850 shares) under the 2018 financial year LTI scheme.
(ii) Mr. Watters retired from his position of Head of Operations on 28 February 2018. Fixed remuneration for Mr. Watters includes a termination payment of $18,180 reflecting annual leave accrued up to the end of service.
(iii) Mr. Graham was appointed Head of Operations commencing 1 March 2018.

2017		Salary	Fixed Remuneration: Non-monetary benefits	Fixed Remuneration: Super-annuation	Variable Remuneration (At Risk): Short Term Incentive	Variable Remuneration (At Risk): Long Term Incentive	Perfor-mance related	Total
		$	$	$	$	$	%	$
Executive Director								
S Ward	(i)	358,878	5,858	34,093	-	-	0%	398,829
T Matthews	(ii)	535,919	3,944	26,667	-		0%	566,530
Other KMP								
M Ferraro	(iii)	384,541	3,702	26,565	-	-	0%	414,808
J Westdorp		340,000	6,130	32,300	-	113,790	23%	492,220
G O'Grady		230,000	5,120	21,850	-	51,770	17%	308,740
J Traicos		260,865	6,130	24,782	-	57,129	16%	348,906
K Watters	(iv)	214,542	17,020	20,382	-	-	0%	251,944
J Wright	(v)	193,649	513	-	-	-	0%	194,162
P Gazzard	(vi)	224,831	3,077	16,609	-	-	0%	244,517
Total		**2,743,225**	**51,494**	**203,248**	**-**	**222,689**	**10%**	**3,220,656**

(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.

Non-monetary benefits include, where applicable, the cost to the Company of providing car parking, company vehicles and a provision for annual leave.

13.8 Shareholdings of KMP

Details of shareholdings of KMP are as follows:

2018		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					
M Purvis		-	-	-	-
Non-Executive Directors					
R Baxter		75,000	-	-	75,000
CT Wong	(i)	2,870,602	-	-	2,870,602
M Arnason		125,000	-	-	125,000
R Beevor		300,024	-	-	300,024
A Zhou		-	-	-	-
S Ward	(ii)	215,000	-	-	n/a
Other KMP					
J Westdorp		198,656	-	-	198,656
G O'Grady		69,105	-	-	69,105
J Traicos		300,000	-	-	300,000
K Watters		-	-	-	-
N Graham		-	-	-	-

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

(ii) Dr. Ward ceased to be KMP during the year ended 30 June 2018.

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
J Traicos		541,405	-	(241,405)	300,000
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.

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 13 Issued to Directors	Series 13 Issued to Employees
Dividend yield (%)	0.00%	0.00%
Expected volatility (%)	99.70%	99.70%
Risk-free interest rate (%)	2.21%	2.21%
Expected life of options (years)	4.000	4.000
Exercise price (cents)	65.0	65.0
Grant date share price (cents)	38.5	38.5
Grant Date	1 Dec 15	1 Dec 15
Expiry Date	1 Dec 19	1 Dec 19
Number	1,700,000	1,100,000
Fair value at grant date	$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 Incentive Plan

The Employee Incentive Plan provides the Company with the flexibility to issue incentives in the form of Options or Performance Rights which may ultimately become shares. The Incentive Plan is targeted at the Company's Executive Directors, Employees and other members of the Company's management team, as determined by the Board from time to time.

The vesting conditions for grants of Incentives under the Incentive Plan will be decided by the Board from time to time. The number of Incentives to be granted under the Incentive Plan will be decided by the Board from time to time.

Any Performance Rights issued under the Incentive Plan will be granted for nil consideration provided that vesting conditions have been satisfied. If the Board chooses to grant Options under the Incentive Plan, the exercise price of any options will be at the absolute discretion of the Board.

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:

2018	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
M Purvis			-	-	-	-	-	-		-	-	-
CT Wong	1 Dec 2015		300,000	-	-	-	-	-		-	300,000	-
S Ward	1 Dec 2015	(i)	300,000	-	-	-	-	-	300,000	100%	-	-
R Baxter	1 Dec 2015		300,000	-	-	-	-	-		-	300,000	-
M Arnason	1 Dec 2015		300,000	-	-	-	-	-		-	300,000	-
A Zhou			-	-	-	-	-	-		-	-	-
J Westdorp	1 Dec 2015		200,000	-	-	-	-	-		-	200,000	-
G O'Grady	1 Dec 2015		100,000	-	-	-	-	-		-	100,000	-
J Traicos	1 Dec 2015		100,000	-	-	-	-	-		-	100,000	-
K Watters			-	-	-		-	-		-	-	
N Graham			-	-	-		-	-		-	-	-

(i) Forfeited on resignation of KMP.

The table below shows a reconciliation of options held by each KMP during the prior 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 Traicos	1 Dec 2015		-	100,000	-	100,000	100%	-	-	-	100,000	-
J Wright	1 Dec 2015	(ii)	-	200,000	-	-	-	-	200,000	100%	-	-

(i) Expired on 30 June 2017.

(ii) Forfeited on resignation of KMP.

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

2018	Grant date		Opening balance unvested	Granted	Issue price $	Vested	Vested %	Forfeited	Forfeited %	Closing balance unvested	Maximum value yet to vest $
J Westdorp	29 Jan 2018		-	558,450	0.20	-	-	-	-	558,450	111,690
	29 Jan 2018	(i)	-	558,450	0.20	-	-	558,450	100%	-	-
	19 Dec 2016		464,449	-	0.24	-	-	-	-	464,449	113,790
	24 Feb 2016		291,129	-	0.38	-	-	-	-	291,129	110,629
G O'Grady	29 Jan 2018		-	251,850	0.20	-	-	-	-	251,850	50,370
	29 Jan 2018	(i)	-	251,850	0.20	-	-	251,850	100%	-	-
	19 Dec 2016		211,306	-	0.24	-	-	-	-	211,306	51,770
	24 Feb 2016		141,913	-	0.38	-	-	-	-	141,913	53,927
J Traicos	29 Jan 2018		-	285,647	0.20	-	-	-	-	285,647	57,129
	29 Jan 2018	(i)	-	285,647	0.20	-	-	285,647	100%	-	-
	19 Dec 2016		233,181	-	0.24	-	-	-	-	233,181	57,129
	24 Feb 2016		156,605	-	0.38	-	-	-	-	156,605	59,510

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

The table below shows a reconciliation of share rights held by each KMP during the prior 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 Traicos	19 Dec 2016	(ii)	-	233,181	0.24	-	-	233,181	100%	-	-
	19 Dec 2016		-	233,181	0.24	-	-	-	-	233,181	57,129
	24 Feb 2016	(ii)	139,340	-	0.41	-	-	139,340	100%	-	-
	24 Feb 2016		156,605	-	0.38	-	-	-	-	156,605	59,510
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.

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 2018 are set out below:

Name		Base salary	Notice period Company	Notice period Employee	Termination provision
M Purvis		$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
N Graham	(i)	$336,986 pa	3 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
J Traicos		$260,865 pa	3 months	1 month for breach of contract or 3 months	Accrued leave entitlements

(i) Employment Agreement executed 1 February 2018 to commence 1 March 2018.

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 2018, the Group entered into a Variation to the Settlement Deed with Tricoastal which allowed the Group to defer the repayment date of its US$76,435 debt to Tricoastal from 31 March 2018 to no later than 31 December 2018. All other terms remain unchanged.

During the year ended 30 June 2018, the Company sold zircon concentrate product from its Keysbrook project to Tricoastal with a total value of US$11.397m (2017: US$7.020m). 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 of US$3.463m (2017: US$3.345m) and interest of $4.549m was capitalised (2017: $1.320m). At 30 June 2018, an amount of $0.031m (2017: $0.019m) was owed to RCF for services provided.

During the year ended 30 June 2018, an amount of US$20.0m was drawn down in relation to the Additional Working Capital Facility provided by RCF. In April 2018, the Company announced a three year Term Loan Agreement with RCF to provide a total of US$61.0m, enabling repayment of the Additional Working Capital Facility and the provision of additional funding to support operations. Subsequently, in May 2018, the Company drew down Tranche A of the Term Loan facility in the amount of US$53.5m.

End of Audited Remuneration Report

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

M Purvis
Managing Director

Perth, Western Australia
25 September 2018

14 Auditor's Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of MZI Resources Ltd for the year ended 30 June 2018, 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 Ltd and the entities it controlled during the period.

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
25 September 2018

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15 Financial Statements

15.1 Consolidated Statement of Comprehensive Income

	Note	2018 $'000	2017 $'000
Continuing Operations			
Revenue from sales	5	42,541	39,612
Costs of production	5	(43,969)	(42,552)
		(1,428)	(2,940)
Depreciation and amortisation	5	(12,582)	(11,279)
Other operating costs relating to sales	5	(3,496)	(1,095)
Gross Loss		(17,506)	(15,314)
Other revenue	5	253	24
Other income	5	6,966	5,003
Corporate expenses	5	(4,955)	(5,697)
Other expenses	5	(104)	(3,326)
Gain /(Loss) on foreign exchange	5	(4,685)	4,007
Fair value movements on financial instrument derivatives	5	2,487	(1,924)
Loss before Finance and Tax		**(17,544)**	**(17,227)**
Fair value movement on financial instrument embedded derivative	5	2,163	2,147
Finance expenses	5	(20,042)	(16,328)
Loss before Tax		**(35,423)**	**(31,408)**
Tax expense		-	-
Loss after Tax from Continuing Operations		(35,423)	(31,408)
Attributable to:			
Equity holders of the parent		(35,423)	(31,408)
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		(3,291)	3,159
Total Comprehensive Loss for the Year		**(38,714)**	**(28,249)**
Attributable to:			
Equity holders of the parent		(38,714)	(28,249)
Basic and diluted loss per share (cents per share)	21	(0.15)	(0.15)

The accompanying Notes form part of these Financial Statements.

15.2 Consolidated Statement of Financial Position

	Note	2018 $'000	2017 $'000
Current Assets			
Cash and cash equivalents	7(a)	7,229	10,656
Trade and other receivables	7(b)	14,628	657
Inventories	8(a)	10,001	4,734
Other current assets	7(d)	1,185	954
Other financial assets	7(c)	-	1,581
Total Current Assets		**33,043**	**18,582**
Non-Current Assets			
Trade and other receivables	7(b)	696	682
Other financial assets	7(c)	-	155
Property, plant and equipment	8(b)	92,907	88,210
Exploration and evaluation expenditure	8(c)	1,062	886
Mine development expenditure	8(d)	37,767	43,131
Total Non-Current Assets		**132,432**	**133,064**
Total Assets		**165,475**	**151,646**
Current Liabilities			
Trade and other payables	7(e)	15,955	9,025
Provisions	8(e)	3,401	3,226
Other financial liabilities	7(f)	2,193	2,321
Borrowings	7(g)	47,633	45,759
Total Current Liabilities		**69,182**	**60,331**
Non-Current Liabilities			
Provisions	8(e)	7,458	6,935
Other financial liabilities	7(f)	2,166	3,604
Borrowings	7(g)	122,926	82,250
Total Non-Current Liabilities		**132,550**	**92,789**
Total Liabilities		**201,732**	**153,120**
Net Assets / (Liability)		**(36,257)**	**(1,474)**
Equity			
Share capital	9(a)	121,666	117,908
Reserves		79	3,197
Accumulated losses		(158,002)	(122,579)
Total Equity		**(36,257)**	**(1, 474)**

The accompanying Notes form part of these Financial Statements.

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 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)**
Loss for the year						(35,423)	(35,423)
Other comprehensive income	-	(3,291)	-	-	-	-	(3,291)
Total Comprehensive Loss for the Year	**-**	**(3,291)**	**-**	**-**	**-**	**(35,423)**	**(38,714)**
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	3,759	-	-	-	-	-	3,759
Recognition of share-based payments	-	-	172	-	-	-	172
Balance at 30 June 2018	**121,667**	**(2,177)**	**(1,369)**	**2,572**	**1,052**	**(158,002)**	**(36,257)**

The accompanying Notes form part of these Financial Statements.

15.4 Consolidated Statement of Cash Flows

	Note	2018 $'000	2017 $'000
Cash Flows from Operating Activities			
Receipts from customers		38,970	51,113
Interest received		15	24
Receipt from insurance claim		-	5,000
Payments to suppliers and employees (inclusive of GST)		(54,491)	(48,819)
Interest and other bank fees paid		(4,925)	(6,876)
Net Cash Flows from Operating Activities	**10**	**(20,431)**	**442**
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		1	-
Other income from investing		1,476	-
Payments for exploration and evaluation		(276)	(488)
Payments for security deposits		(14)	-
Payments for property, plant and equipment		(11,033)	(11,640)
Net Cash Flows from Investing Activities		**(9,846)**	**(12,128)**
Cash Flows from Financing Activities			
Proceeds from issue of shares and other securities		-	-
Share issue costs		-	(11)
Proceeds from borrowings		96,587	28,220
Repayment of borrowings		(69,995)	(7,874)
Net Cash Flows from Financing Activities		**26,592**	**20,335**
Net (decrease)/increase in cash and cash equivalents		(3,685)	8,649
Cash and cash equivalents at the beginning of the year		10,656	2,500
Effect of exchange rate fluctuations on cash held		258	(493)
Cash and Cash Equivalents at the End of the Year	**7(a)**	**7,229**	**10,656**

The accompanying Notes form part of these Financial Statements.

For non-cash financing transactions refer to Note 10.

16 Notes to the Financial Statements

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 2018 was authorised for issue in accordance with a resolution of the Directors on 25 September 2018. 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 Legislative Instrument 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 $7.229m and had a working capital deficit, inclusive of provisions and financial instruments, of $36.139m. Current liabilities include a convertible note of US$21m provided by RCF that has a repayment date of 26th of May 2019. The Group has entered discussions with RCF in relation to this facility with a view to either renegotiating the terms of conversion, extending the facility repayment period or exploring other options in relation to the convertible loan agreement.

For the year ended 30 June 2018, the Group incurred a loss after tax of $35.423m and had a net liability of $36.257m. Cash flows from operational activities produced a net outflow of $20.431m, impacted by higher than expected operational expenditure and a delay in receipts from sales at the close of the financial year.

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, budgeted production output, achieving predicted operating costs and generating the anticipated sales volumes. The Group forecast demonstrates an increase in cash utilisation as the Company continues the ramp up of operations at Keysbrook under the higher throughput Operating Plan that is designed to improve margins and reduce unit costs over the longer term.

Financial projections indicate the Group's ability to derive sufficient income from sales to fund operating cashflows over the near term however the Company's obligation to service debt agreements will likely require additional funding or a revision to current arrangements. The Group has retained the services of Northcott Capital Limited as Corporate Financial Advisor to progress the refinancing initiative previously disclosed.

At the close of the financial year, the Group had a balance of US$7.5m available to draw down (subject to satisfaction of conditions precedent) on Tranche B of the Term Loan facility provided by RCF in May 2018. In addition and subsequent to the financial year end, the Group received $9.5m cash refund from the Australian Taxation Office in relation to a research and development claim relating to the 2015/2016 taxation year. These funds are available immediately for the Group to use as required.

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.

2018	Tiwi Island Projects $'000	Keysbrook Project $'000	Unallocated Corporate / Other $'000	Consolidated $'000
Segment revenue – external (i)	-	42,541	-	42,541
Other revenue	-	247	6	253
Other income	-	6,960	6	6,966
Production Costs	-	(43,969)	-	(43,969)
Depreciation and amortisation	-	(12,456)	(126)	(12,582)
Other operating costs	(989)	(2,507)	-	(3,496)
Corporate expenses	-	(896)	(4,059)	(4,955)
Other expenses	(7)	(97)	-	(104)
Gain / (Loss) on foreign exchange	-	(4,663)	(22)	(4,685)
Fair value movements on financial instrument derivatives	-	2,487	-	2,487
Fair value movements on financial instrument embedded derivatives	-	2,163	-	2,163
Finance expenses	-	(19,610)	(432)	(20,042)
Segment results	**(996)**	**(29,800)**	**(4,627)**	**(35,423)**
Tax (expense)/benefit				-
Net loss after tax				(35,423)
Share-based payments	-	-	(172)	(172)
Segment assets	652	161,601	3,222	165,475
Segment liabilities	161	199,630	1,941	201,732
Capital expenditure (ii)	-	14,656	43	14,699

(i) Trade revenue is derived from two customers contributing more than 10% of total revenue.

(ii) Capital expenditure includes property, plant and equipment, mine development and exploration expenditure.

2017	Tiwi Island Projects $'000	Keysbrook Project $'000*	Unallocated Corporate / Other $'000	Consolidated $'000
Segment revenue – external (i)	-	39,612	-	39,612
Other revenue	-	12	12	24
Other income	-	5,003	-	5,003
Production Costs	-	(42,552)	-	(42,552)
Depreciation and amortisation	-	(11,279)	(203)	(11,482)
Other operating costs	(548)	(547)	-	(1,095)
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 (ii)	-	13,686	182	13,868

(i) Trade revenue is derived from two customers contributing more than 10% of total revenue.

(ii) Capital expenditure includes property, plant and equipment, mine development and exploration expenditure.

Note 5: Revenue and Expenses

	30 Jun 18 $'000	30 Jun 17 $'000
Sales revenue		
Leucoxene and zircon sales	42,451	39,612
Costs of production		
Production	33,884	31,955
Operational support costs	7,961	8,863
Shipping	2,124	1,734
	43,969	42,552
Depreciation and amortisation		
Depreciation	9,594	8,669
Amortisation	2,988	2,610
	12,582	11,279
Other operating costs relating to sales		
Care and maintenance	-	(54)
Royalties and landowner payments	3,496	1,149
	3,496	1,095
Other revenue		
Interest income	253	24
	253	24
Other income		
Insurance proceeds received	-	5,000
Sundry income	6,966	3
	6,966	5,003
Corporate expenses		
Audit and review fees	124	128
Consulting fees	742	476
Travel and accommodation	72	111
Occupancy costs	240	384
Share-based payments - employee benefits	172	379
Salaries and wages	2,668	3,034
Depreciation of non-mine assets	126	203
Other	361	523
Directors' fees	450	459
	4,955	5,697
Other expenses		
Asset written off	3	3,200
Impairment of exploration and evaluation	101	126
	104	3,326
Loss on foreign exchange		
Net loss / (gain) on foreign exchange	4,685	(4,007)
	4,685	(4,007)
Fair value movements on financial instrument derivatives		
Fair value movement on contractual derivatives – (gain) / loss	(1,009)	1,870
Realised movement on currency hedges – (gain) / loss	(1,478)	54
	(2,487)	1,924
Fair value movements on financial instrument embedded derivatives		
Fair value gain on loan derivatives	(2,163)	(2,147)
Finance expenses		
Interest and fees on borrowings	20,042	16,328

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 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 18 $'000	30 Jun 17 $'000
Loss before income tax	(35,423)	(31,408)
Income tax benefit calculated at 30%	(10,626)	(9,421)
Tax effect of:		
Prior year adjustments	9	-
Research and development incentive received	(2,076)	-
Non-deductible expenses	11	6
Non-deductible interest	1,384	1,056
Non-deductible share-based payments	2,524	1,245
Exploration expenditure write offs	30	120
Assessable income not included	-	(16)
Deferred tax assets not recognised	8,744	7,010
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 18 $'000	30 Jun 17 $'000
Tax losses carried forward	2,959	4,941
Provision for site restoration	2,949	2,786
Employee provisions	218	186
Accrued expenses	58	78
Borrowing costs	1,239	986
Unrealised gains/losses	491	359
Share issue/business related costs	230	373
Embedded derivatives	1,255	1,156
Unrealised loss in Other Comprehensive Income	-	334
	9,399	11,199
Set off of deferred tax liabilities	(9,399)	(11,199)
Net deferred tax assets	**-**	**-**

Unused tax losses for which no deferred tax asset has been recognised is $56.247m (2017: $27.736m).

Deferred tax liabilities comprise:

	30 Jun 18 $'000	30 Jun 17 $'000
Convertible loan	88	1,278
Fuel tax credit receivable	47	33
Unrealised foreign exchange	-	945
Inventory	420	72
Prepayments	16	24
Capitalised exploration costs	319	266
Depreciable assets	2,887	4,351
Mining assets	4,558	3,768
Treasury shares	411	462
Unrealised gain in Other Comprehensive Income	653	-
Total	**9,399**	**11,199**

(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 18 $'000	30 Jun 17 $'000
Cash at bank	7,229	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

	30 Jun 18 $'000	30 Jun 17 $'000
Current		
Trade receivables	3,889	-
Other receivables (i)	10,739	657
	14,628	657
Non-Current		
Security deposits (ii)	696	682

(i) Other receivable includes research and development incentive claim plus interest due of $9.767m (2017: nil)

(ii) 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 (2017: $0.565m).

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

	30 Jun 18 $'000	30 Jun 17 $'000
0-30 days	4,861	657
60-90 days	9,767	-

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 18 $'000	30 Jun 17 $'000
Current		
Embedded contractual derivative (i)	-	645
Cash flow hedges (ii)	-	936
	-	1,581
Non-Current		
Cash flow hedges (ii)	-	155

(i) Embedded contractual derivative

Refer to Note 7(f) for details of embedded derivative associated with the L88 sales 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

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

(d) Other Assets

	30 Jun 18 $'000	30 Jun 17 $'000
Prepayments	1,185	954

(e) Trade and Other Payables

	30 Jun 18 $'000	30 Jun 17 $'000
Trade payables	12,465	6,865
Interest and finance payables	2,923	1,672
Other payables	567	488
Total	**15,955**	**9,025**

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 18 $'000	30 Jun 17 $'000
Current		
Other financial liabilities (i)	-	110
Embedded contractual derivative (ii)	898	-
Embedded derivatives (iii)	48	2,211
Cash flow hedges (v)	1,247	-
Total	**2,193**	**2,321**
Non-current		
Other financial liabilities (i)	175	225
Embedded contractual derivative (ii)	1,039	3,379
Cash flow hedges (v)	952	-
Total	**2,166**	**3,604**

Derivative financial instruments are recorded at fair value on the Consolidated Statement of Financial Position and are classified based on contractual maturity. Derivative instruments entered into as hedges of highly probable forecast transactions are classified as cash flow hedges. Derivatives designated as a cash flow hedge that are expected to be highly effective in achieving offsetting changes in fair value of 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.

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 and loss.

(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, the Leucoxene 88 ("L88") offtake agreement with a third party, entered into in a 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 2018, the fair value of the embedded derivative associated with the L88 contract was a current liability of $0.898m and a non-current financial liability of $1.039m (2017: current financial asset $0.645m and 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 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

At 30 June 2018, the fair value of the embedded derivative associated with the US$21.000m Convertible Loan facility is $0.004m (2017: $1.204m).

At 30 June 2018, the fair value of the embedded derivatives associated with the US$8.000m Bridge Finance facilities was $0.044m (2017: $1.007m).

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.

(iv) 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

(v) Cash Flow Hedges

During the year ended 30 June 2018, 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 loss of $2.176m (2017: Gain of $1.114m) relating to the valuation of the hedging instruments at 30 June 2018 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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
1 - 2 years	53,524	31,174	0.7739	0.7451	(2,176)	1,114

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 2018 is $0.024m (2017: $0.024m).

Fair Value hierarchy of financial instruments

The following table represent the Group's financial instruments measured and recognised at fair value at 30 June 2018 on a recurring basis:

2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Foreign currency hedging contracts	-	2,176	-	2,176
Embedded derivative associated with L88 Contract	-	-	1,937	1,937
Embedded derivative associated with Convertible Loan	-	-	4	4
Embedded derivative associated with Bridge Finance Facilities	-	-	44	44
Interest rate swap	-	24	-	24

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

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
- 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 2017 and 30 June 2018:

	Embedded Financial Derivatives	Embedded Contractual Derivatives
Opening Balance 1 July 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)**
Transfer from Level 2	-	-
Gains / (Losses) recognised as fair value movements	2,163	797
Closing Balance 30 June 2018	**(48)**	**(1,937)**

(g) Loans and Borrowings

	30 Jun 18 $'000	30 Jun 17 $'000
Current		
Senior facility (i)	10,824	6,500
Additional Working Capital loan (i)	-	28,972
Convertible loan (i)	24,822	-
Working capital facility (i)	4,059	3,900
Mortgage facilities (ii)	4,197	1,700
Bank loan (ii)	242	242
Insurance premium funding (iii)	326	340
Hire purchase (iii)	3,060	3,756
Other party settlement (i)	103	349
Total	**47,633**	**45,759**
Non-Current		
Convertible loan (i)	-	20,858
Bridge facility (i)	10,459	9,898
Senior facility (i)	33,148	39,652
Term Loan (i)	73,407	-
Mortgage facilities (ii)	3,393	6,022
Bank loan (ii)	81	322
Hire purchase (iii)	2,438	5,498
Total	**122,926**	**82,250**

Recognition and Measurement

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.

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

Senior & Secured Debt (i)

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 $144.950m.

On 12 November 2014, the Group entered into a Senior Facility Agreement with RMB Resources Limited ("RMB"). The facilities provided include an $11.5m Bank Guarantee Facility available for West Australian Environmental Protection Agency approvals, landowner agreements and the Western Power connection if required.

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 2018, the Company received waivers, which are effective until 30 September 2019, 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
- compliance with certain ratios

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

During the year ended 30 June 2018, the Group announced an addition to the funding arrangements previously provided by RCF. The additional funding was established as a 3 year Term Loan to be drawn in 2 Tranches, with Tranche A drawn down on 31 May 2018. Funds received of US$53.5m were applied firstly to repay all amounts owing under the expanded Additional Working Capital Facility with the balance utilised to fund Group operations.

A further US$7.5m is available to the Group as Tranche B of the Term Loan and subsequent to year end, an amount of US$3.5m was drawn from this facility.

(i) Financing Arrangements – Secured Debt, Senior Debt and Other Facilities

The following table sets out the interest rates and maturity details of Senior and Secured Debt.

Name	Currency	Available	Maturity	Interest	Balance $'000
RMB Working Capital Facility	USD	12/11/14	31/12/21	Libor + 5.35%	3,000
Other Party Settlement - Tricoastal	USD	28/10/16	31/12/18	-	74
RCF Additional Working Capital	USD	12/11/14	31/5/18	10%	-
RCF Convertible Loan	USD	12/11/14	26/5/19	10%	21,000
RCF Bridge Facility	USD	12/11/14	5/6/20	10%	8,000
RMB Senior Facility	USD	12/11/14	31/12/21	Libor + 5.35%	32,500
RCF Term Loan	USD	31/5/18	31/5/21	15%	53,500

(ii) Financing Arrangements – Mortgage Facilities

The following table sets out the interest rates and maturity details of the Group's Mortgage Facilities.

Name	Currency	Commenced	Maturity	Interest	Balance $'000
National Australia Bank Mortgage	AUD	12/11/14	30/11/19	6.450%	323
Other Party Loan 1	AUD	5/11/14	5/11/19	4.50%	4,650
Other Party Loan 2	AUD	9/10/15	30/6/20	5.00%	750
Other Party Loan 3	AUD	4/11/16	30/6/19	4.50%	600
Other Party Loan 4	AUD	30/4/18	31/12/19	4.50%	760
Other Party Loan 5	AUD	15/6/18	14/6/19	5.0%	800

(iii) Financing Arrangements – Hire Purchase and Insurance Premium Funding

The following table sets out the interest rates and maturity details of Hire Purchase and Funding Facilities.

Name	Currency	Commenced	Maturity	Interest	Limit $'000	Drawn $'000	Repaid $'000
Insurance Premium Funding	AUD	31/3/18	31/3/19	2.312%	347	347	21
Hire Purchase Agreements ;							
Komatsu Agreement for MFU	AUD	31/3/16	30/9/19	5.45%	4,081	4,081	2,888
Komatsu Agreement for Heavy Vehicles	AUD	31/7/15	31/7/20	4.9–5.8%	8,677	8,677	6,528
Toyota Agreement for Light Vehicles	AUD	31/7/15	28/2/21	4.4-5.4%	900	658	438
Fleetwood Agreement for Site Office	AUD	3/7/15	30/9/20	5.48%	353	353	221
SNF Agreement for Site Plant	AUD	30/11/15	30/4/21	2.26%	380	380	196
Allightsykes Agreement for Lights	AUD	2/11/15	31/10/18	5.51%	150	150	144
Rakkan Agreement for Site Offices	AUD	1/4/17	31/3/19	20.39%	425	425	320

Future minimum payments required under these funding arrangements as at 30 June 2018 are as follows:

	30 Jun 18 $'000	30 Jun 17 $'000
Not later than one year	3,573	4,542
Later than one year but not later than five years	2,477	5,716
Total minimum lease payments	6,050	10,258
Less finance charges	(226)	(664)
Present value of minimum lease payments	5,824	9,594

Schedule of current year movements in loans and borrowings

	Senior Secured Debt $'000	Secured Convertible Notes $'000	Other Facilities $'000	Mortgage Facilities $'000	Hire Purchase $'000	Insurance Premium Funding $'000	Total $'000
Opening Balance	79,024	30,756	349	8,286	9,254	340	128,009
Cashflow movements	32,430	-	(85)	(1,740)	(4,416)	(14)	26,175
Effect of movement in exchange rate	6,430	4,525	5	-	-	-	10,960
Other non-cash movement	3,554	-	(166)	1,367	660	-	5,415
Closing Balance	121,438	35,281	103	7,913	5,498	326	170,559

Note 8: Non-Financial Assets and Liabilities

(a) Inventories

	30 Jun 18 $'000	30 Jun 17 $'000
Heavy mineral concentrate and other intermediate stockpiles - at cost	132	62
Heavy mineral concentrate and other intermediate stockpiles - at NRV	3,070	3,572
Finished goods stockpiles - at NRV	5,398	223
Stores and consumables - at cost	1,401	877
Total	**10,001**	**4,734**

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 weighted 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 $2.331m (2017: $0.924m).

(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 2017 net of accumulated depreciation	17,448	62,846	354	7,562	-	88,210
Additions	9,231	-	-	-	5,191	14,422
Transfer between asset classes	-	1,573	43	-	(1,616)	-
Disposal	-	(4)	-	-	-	(4)
Depreciation charge for the year	-	(7,877)	(154)	(1,690)	-	(9,721)
At 30 June 2018 net of accumulated depreciation	26,679	56,538	243	5,872	3,575	92,907
At 30 June 2018						
Cost	26,679	74,116	1,179	10,652	3,575	116,201
Accumulated depreciation	-	(17,578)	(936)	(4,780)	-	(23,294)
Net carrying amount	**26,679**	**56,538**	**243**	**5,872**	**3,575**	**92,907**

	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.

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 2018 (2017 : nil).

(c) Exploration and Evaluation Expenditure

	30 Jun 18 $'000	30 Jun 17 $'000
Opening balance	886	615
Exploration expenditure incurred	277	397
Impairment loss	(101)	(126)
Closing balance	**1,062**	**886**

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 that may be 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 recognised as an expense in 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 is current.

During the year ended 30 June 2018, the carrying value of some tenements held or relinquished were reviewed and assessed as non-recoverable under the Group's policy. An amount of $0.101m (2017 $0.126m) has been recognised in the Statement of Comprehensive Income.

(d) Mine Development Expenditure

	30 Jun 18 $'000	30 Jun 17 $'000
Opening balance	43,131	42,352
Adjustments to rehabilitation and restoration provision	229	3,389
Research and development incentive refund	(2,606)	-
Amortisation	(2,987)	(2,610)
Closing Balance	**37,767**	**43,131**

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. Mine 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 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 18 $'000	30 Jun 17 $'000
Current		
Annual leave	645	621
Long service leave	81	-
Payroll tax	51	52
Site restoration (i)	2,624	2,553
Total	**3,401**	**3,226**
Non-Current		
Site restoration (i)	7,458	6,935
Total	**7,458**	**6,935**

(i) Site restoration

	30 Jun 18 $'000	30 Jun 17 $'000
Opening balance	9,488	6,114
Rehabilitation and restoration provision accretion	406	202
Change in scope of restoration provision	278	3,591
Utilised during the year	(90)	(419)
Closing balance	**10,082**	**9,488**

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 2018: 2.830% (2017: 2.960%). 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 18 $'000	30 Jun 17 $'000
218,082,824 (2017: 218,082,824) ordinary fully paid shares	121,666	117,908

Movements in ordinary share capital

	No. of Shares	$'000
Issued shares:		
At 1 July 2016	203,841,970	114,041
Shares issued pursuant to a Facility Agreement (i)	14,240,854	3,877
Share issue costs	-	(10)
As at 30 June 2017	218,082,824	117,908
At 1 July 2017	218,082,824	117,908
Shares issued pursuant to a Facility Agreement (i)	28,046,591	3,759
Share issue costs		
As at 30 June 2018	246,129,415	121,667

(i) 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 18 $'000	30 Jun 17 $'000
Loss after tax	(35,423)	(31,408)
Depreciation and amortisation	12,708	11,482
Foreign currency (gain)/loss	4,915	(3,998)
Non cash borrowing costs (i)	3,778	7,216
Impairment of exploration and evaluation assets	101	126
Exploration and evaluation	-	488
Share-based payments	172	379
Disposal of assets	3	3,200
Changes in operating asset and liabilities:		
(Increase)/decrease in receivables	(8,268)	11,252
(Increase)/decrease in inventories	(5,266)	(506)
(Increase)/decrease in prepayments	(275)	(32)
Increase/(decrease) in trade and other payables	7,110	3,112
Increase/(decrease) in provisions	14	(869)
Net cash flows from operating activities	**(20,431)**	**442**

(i) Non-cash investing and financing activities

	30 Jun 18 $'000	30 Jun 17 $'000
Interest settled in shares	3,758	3,865
Other non-cash financing costs	20	3,351
Total	**3,778**	**7,216**

During the year ended 30 June 2018, 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.
- 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 12 April 2018, the Company issued 8,163,841 fully paid ordinary shares at an issue price of $0.1138 per share to RCF for payment of interest for the March 2018 quarter, associated with the Keysbrook finance facilities.

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.

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 and Mine Development Expenditure

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) 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.

(d) 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.

(e) 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.

(f) 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.

(g) 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, borrowings 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.

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

		Fixed interest rate maturing in:					Average interest rate:	
	Floating interest rate	< 1 year	1 to 5 years	> 5 years	Non-interest bearing	Total	Floating	Fixed
2018	$'000	$'000	$'000	$'000	$'000	$'000	%	%
Financial assets								
Cash and cash equivalents	7,229	-	-	-	-	7,229	1.3	-
Trade and other receivables	9,528	-	-	-	5,796	15,324	1.2	-
Other financial assets	-	-	-	-	-	-	-	-
Financial liabilities								
Trade and other payables	-	-	-	-	15,955	15,955	-	-
Other financial liabilities	-	-	175	-	4,184	4,359	-	4.5
Borrowings	323	47,288	122,845	-	103	170,559	6.3	11.1

		Fixed interest rate maturing in:					Average interest rate:	
	Floating interest rate	< 1 year	1 to 5 years	> 5 years	Non-interest bearing	Total	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	-	-	-	-	9,025	9,025	-	-
Other financial liabilities	-	110	225	-	5,590	5,925	-	4.5
Borrowings	564	45,168	81,928	-	349	128,009	6.3	7.1

At 30 June 2018, 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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
+ 1% (100 basis points)	(4,188)	(3,392)	4,188	3,392
- 0.50% (50 basis points)	3,521	2,472	(3,521)	(2,742)

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.

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.

(c) 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 2018 is as follows:

2018	Aaa $'000	Aa1 $'000	Aa2 $'000	Aa3 $'000	Ba3 $'000	Internally rated $'000	Total $'000
Financial assets							
Cash and cash equivalents	-	-	1	7,227	-	1	7,229
Trade and other receivables	10,739	564	101	-	3,890	30	15,324

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

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.

(d) 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 2018. 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.

The tables below outline contractual cashflows at notional amounts on financial assets and liabilities;

2018	< 1 year $'000	1 to 5 years $'000	> 5 years $'000	Total $'000
Financial assets				
Cash and cash equivalents	7,229	-	-	7,229
Trade and other receivables	14,628	696	-	15,324
Financial liabilities				
Trade and other payables	(15,955)	-	-	(15,955)
Other financial liabilities	(2,193)	(2,166)	-	(4,359)
Borrowings	(63,895)	(143,621)	-	(207,516)
Net inflow/(outflow)	**(60,186)**	**(145,091)**	**-**	**(205,277)**

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	(9,025)	-	-	(9,025)
Other financial liabilities	(2,321)	(3,604)	-	(5,925)
Borrowings	(52,984)	(92,047)	-	(145,031)
Net inflow/(outflow)	**(51,436)**	**(94,814)**	**-**	**(146,250)**

(e) 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:

	2018 A$'000	2017 A$'000
Financial Assets		
Trade receivables	3,889	-
Financial Liabilities		
Borrowings	156,059	109,831

At 30 June 2018, 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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
+ 10%	14,187	9,985	(14,187)	(9,985)
- 10%	(17,340)	(12,203)	17,340	12,203

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 2018, the AUD:USD exchange rate is A$1:US$0.7391 and the year to date average AUD:USD exchange rate is A$1:US$0.7753. The Group uses exchange rates provided by the Reserve Bank of Australia.

(f) 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.

(g) 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.

	2018	2017
Gearing ratio	128.5%	101.3%

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 %	
		2018	2017
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) for details of a contingent facility provided by RMB Resources Limited.

Note 16: Commitments

(a) Capital Commitments

As at 30 June 2018, the Group does not have any capital commitments due in future periods in relation to the construction and development of the Keysbrook Project (2017: nil).

(b) Non-Cancellable Operating Leases

On the 3rd of September 2017, the Company exercised its option to extend the commercial lease of office space for a further 2 years. 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 2018 are as follows:

	30 Jun 18 $'000	30 Jun 17 $'000
Not later than one year	112	40
Later than one year but not later than five years	19	-
Aggregate lease expenditure contracted for at balance date but not provided for	**131**	**40**

(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 2019 for the Group is approximately $0.516m. This includes the minimum amounts required to retain tenure. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond 2019 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 5 July 2018, the Company issued 12,544,065 fully paid ordinary shares at an issue price of $0.0779 per share to RCF for payment of interest due for the June 2018 quarter, associated with the Keysbrook finance facilities.

On 13 July 2018, the Company announced the draw down of US$3.5m from Tranche B of the Term Loan Facility provided by RCF.

On 4th of September 2018, the Company received $9.5m from a research and development incentive claim for eligible expenditure incurred in the 2015/16 taxation year. The claim was accounted for as a receivable with a portion recognised as sundry income at 30 June 2018. The remainder of the claim was recognised as a reduction in mine development assets.

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 18: 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 2018 and 30 June 2017:

- Tricoastal Minerals (Holdings) Company Limited, a company in which Mr CT Wong has a beneficial interest, was paid Director's fees of $0.078m (2017: $0.076m). At 30 June 2018, an amount of $0.020m (2017: $0.019m) was owed to Tricoastal Minerals (Holdings) Company Limited.
- In a prior year, the Group received a loan from Tricoastal Minerals (Holdings) Company Limited. At 30 June 2018 there is a balance outstanding of US$0.076m (2017: US$0.268m). This is now the subject of a settlement deed, with final repayment due on or before 31 December 2018.
- During the year ended 30 June 2018, the Company sold zircon concentrate product for US$11.397m from its Keysbrook project to Tricoastal Minerals (Holdings) Company Limited (2017: US$7.020m). 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 of US$3.463m (2017: US$3.345m) and interest of $4.549m was capitalized (2017: $1.320m). At 30 June 2018, an amount of $0.031m (2017: $0.019m) was owed to RCF for services provided.

  In addition, an amount of US$53.500m was drawn down in relation to the RCF Term Loan Facility during the year ended 30 June 2018. These funds were used in part to repay the Additional Working Capital Facility in full. Refer to Note 7 for details of this financial arrangement.

(c) Compensation of Directors and KMP

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

	30 Jun 18 $	30 Jun 17 $
Short-term	2,233,126	3,180,947
Post-employment	185,372	218,493
Share-based payments	219,189	165,560
Total	**2,637,687**	**3,565,000**

Note 19: 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 share based payments charge or credit recognised in the Consolidated Statement of Comprehensive Income 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 2018, these 1,100,000 options remain unvested (Series 13).

(c) Options Issued to Directors

A total of 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 2018.

(d) Options Issued in Consideration for Services

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.

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.

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 were exercisable at any time before 30 May 2018.

The fair value of all these options has been recognised in a previous financial year and at 30 June 2018 these options have expired.

(e) Movements in Options

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

	2018		2017	
	Options No.	Weighted average exercise price	Options No.	Weighted average exercise price
Outstanding at the beginning of the year	6,562,000	$0.5993	8,250,000	$0.6447
Granted during the year	-	-	-	-
Expired during the year	(3,762,000)	$(0.3160)	(1,688,000)	$(0.8444)
Total	**2,800,000**	**$0.6500**	**6,562,000**	**$0.5993**

The weighted average remaining contractual life of the share options as at 30 June 2018 is 1.42 years (2017: 1.22 years).

The weighted average fair value of options granted during the year was nil (2017: nil).

The following table lists the inputs to the model for options in place as at 30 June 2018:

	Series 13
Dividend yield (%)	0.00%
Expected volatility (%)	99.70%
Risk-free interest rate (%)	2.21%
Expected life of options (years)	4.000
Exercise price (cents)	65.0
Grant date share price (cents)	38.5
Grant Date	01 Dec 15
Expiry Date	01 Dec 19
Number	2,800,000
Fair value at grant date (cents)	$0.2344

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 year ended 30 June 2018, no rights over shares were granted under the Employee Share Trust Plan.

During the prior year ended 30 June 2017, a total of 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 2018.

During the year ended 30 June 2017, a further 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 expired during the year ended 30 June 2017 as the performance conditions for vesting were not 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:

	2018		2017	
	Rights over shares No.	Weighted average fair value $	Rights over shares No.	Weighted average fair value $
Outstanding at beginning of year	2,003,271	0.2486	3,455,964	0.3950
Granted during the year	-	-	2,417,036	0.2869
Vested during the year	-	-	-	-
Forfeited during the year	-	-	(3,869,769)	(0.4333)
Total	**2,003,271**	**0.2486**	**2,003,271**	**0.2486**

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 2018 is 0.44 (2017: 1.44 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 2018, a total of 1,095,947 performance rights were granted as long term incentives ("LTI") with the following performance conditions:

- 50% of the LTI performance rights 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 performance rights for each 1% movement
  - from 0% to 25% above index performance – vests at 3% of performance rights for each 1% movement
  - from 25% to 50% above index performance - vests at 4% of performance rights for each 1% movement

- 50% of the LTI performance rights 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 performance rights for each 1% of CAGR
  - above 10% - vests at 7% of performance rights 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 2020 exceeds the share price as at 30 June 2017. In addition, shares may not be disposed of by the KMP within 12 months of vesting date.

These performance rights remain unvested as at 30 June 2018.

During the year ended 30 June 2018, a further 1,095,947 performance rights 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 defined for each KMP role and approved by the Board

These performance rights have expired during the year ended 30 June 2018 as the performance conditions for vesting have not been met.

(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:

	2018		2017	
	Performance rights No.	Weighted average fair value $	Performance rights No.	Weighted average fair value $
Outstanding at beginning of year	-	-	-	-
Granted during the year	2,191,894	0.2000	-	-
Vested during the year	-	-	-	-
Forfeited during the year	(1,095,947)	(0.2000)	-	-
Total	**1,095,947**	**0.2000**	**-**	**-**

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 2018 is 2.0 years (2017: nil).

There were no cash settled share-based payments during the year (2017: $nil).

Note 20: Remuneration of Auditors

	30 Jun 18	30 Jun 17
Auditing and reviewing of financial reports	131,300	127,500
Tax services related to the Group	-	-
Total	**131,300**	**127,500**

Note 21: Loss per Share

	30 Jun 18 $'000	30 Jun 17 $'000
Loss used in calculating basic and diluted loss per share	(35,423)	(31,408)
Loss used in calculating basic and diluted loss per share from continuing operations	(35,423)	(31,408)
	2018	**2017**
Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share	233,747,760	212,225,985

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 22 : Parent Entity Information

	30 Jun 18 $'000	30 Jun 17 $'000
Current assets	10,424	12,268
Non-current assets	38,869	32,706
Total assets	**49,293**	**44,974**
Current liabilities	2,265	2,235
Non-current liabilities	296	377
Total liabilities	**2,561**	**2,612**
Issued capital	121,666	117,908
Reserves	2,255	2,083
Accumulated losses	(77,189)	(77,629)
Total equity	**46,732**	**42,362**
Profit / (Loss) for the year	440	(7,512)
Total comprehensive Profit / (loss) for the year	**440**	**(7,512)**

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 23: Changes in Accounting Policies

In the year ended 30 June 2018, 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 24: 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 2018 are outlined below.

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

AASB 9 Financial Instruments replaces the prior standard AASB139 and combines 3 aspects of reporting as it addresses recognition and measurement, impairment, and hedge accounting for financial assets and financial liabilities. The Group has performed a detailed assessment of all three aspects of the new standard based on information currently available.

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 Group currently measures financial assets and financial liabilities at fair value through profit and loss, or at amortised cost.

AASB 9 introduces a requirement to consider expected credit losses and recognise potential losses through a provision for impairment, rather than the current practice of recognition only upon a loss occurring. The Group has considered this obligation and determined the revised standard may apply to the balance of trade receivables. An assessment of prior year sales and funds received provides evidence that the Group has not realised a loss on trade receivables since production commenced, hence a provision for impairment is not considered necessary at present. The potential for loss will require consideration on an ongoing basis, particularly if the Group's offtake arrangements change in future.

The requirements for hedge accounting under AASB 9 retain similar accounting treatments to those currently available under AASB 139. 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 introduced enhanced disclosure requirements regarding the entity's risk management activities and this will impact the Group's disclosure once adopted.

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.

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

AASB 15 introduces a new framework of 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 framework is based on a five-step process where revenue is recognised for each distinct performance obligation, at the point control of the good or service passes to the customer. The notion of control over goods sold replaces the previously applied risks and rewards approach under AASB 15.

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, at this point, the Group's performance obligations are fulfilled and revenue recognised. The remaining product, zircon concentrate, is sold on CIF terms where control passes to the customer at the point of arrival and transfer off the ship. Under AASB 15 the delivery of goods to the customer is deemed a separate performance obligation and this component will be independently presented as freight revenue. The variation in classification is not expected to have a material impact on reported revenue as a whole.

(c) AASB 16 Leases (effective from 1 July 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 also has an ongoing agreement for the hire of industrial equipment at its Keysbrook site. Although this agreement is not formally documented as a lease contract, the arrangement has been in place for more than 12 months and under AASB 16, this agreement is likely to be classified as a right to use asset and measured at cost on the balance sheet with a corresponding liability should the agreement continue.

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 25: 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 ASIC Corporations (wholly-owned companies) Instrument 2016/785, 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 2018 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

Perth, Western Australia
25 September 2018

18 Independent Auditor's Report

Independent auditor's report

To the members of MZI Resources Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of MZI Resources Limited (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 2018 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 2018
- 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.

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Material uncertainty related to going concern

We draw attention to Note 3(a) in the financial report, which indicates that the Group incurred a net loss after tax from continuing operations of $35.4 million during the year ended 30 June 2018 and, as of that date, the Group's current liabilities exceeded its current assets by $36.1 million. The Group's ability to continue as a going concern is dependent upon being able to successfully renegotiate, extend or refinance their current borrowings. 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.

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 $425,000, which represents approximately 1% of the Group's revenues 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 and operating activity of the Group whilst 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.

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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 the corporate head office, the mine, KWCP and PMSP during the audit.

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. We communicated the key audit matters to the Audit and Risk Committee.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters 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***
Borrowings *(Refer to note 5 and 7(g) of the financial statements)*	
The Group's statement of financial position included current borrowings of $47.6 million and non-current borrowings of $122.9 million at 30 June 2018. Total borrowings were equal to 108% of the Group's total assets at 30 June 2018. Finance expenses of $20.0 million were incured on the Group's borrowings. During the year, there were several transactions relating to borrowings, including the commencement of a three year Term Loan Facility and the repayment of the Additional Working Capital facility provided by Resource Capital Fund VI L.P. (RCF). Prior to 30 June 2018 the Group received waivers in relation to certain covenants within the Common Terms Agreement, which covers the Senior Facility and other debt instruments, as set out in note 7(g) of the financial statements. This was a key audit matter due to the nature and magnitude of the finance charges and the borrowings, and the importance of the classification of these borrowings in the financial statements.	We obtained confirmations directly from the Group's financial institutions to confirm borrowings held with them, including amounts, tenures 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 or undertakings contained in the facilities. We tested the effective interest rate calculations. This included consideration as to whether the effective interest rates were calculated accurately, taking in account the terms of the agreements and the requirements of Australian Accounting Standards. For debts with other parties, such as land-holder mortgages and hire purchase arrangements, we obtained the contractual arrangements and tested a sample of movements in the year, including recalculating interest expense and tracing repayments to bank statements.

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Key audit matter	*How our audit addressed the key audit matter*
	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. We evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.
Impairment of non-current assets *(Refer to note 8 (b) and (d) of the financial statements)* The Group's financial report included significant non-current assets at 30 June 2018, consisting of Property, Plant and Equipment and capitalised Mine Development Expenditure relating to the Group's Keysbrook mineral sands project (Keysbrook project). During the year the Group identified impairment indicators, requiring the Group to perform an impairment assessment over its non-current assets. The Group's impairment assessment was performed on a 'fair value less cost of disposal' basis to determine the recoverable amount of the Keysbrook project. This calculation was based on estimated future cashflows discounted at a rate determined by management. The assessment involved significant judgements made in relation to key assumptions. The most significant areas of judgement related to: • forecast short and long term mineral sands prices and adjustments required to market prices for the Group's products • the discount rate • forecast foreign exchange rates • reserve and resource estimates • production and processing volumes • operating costs and expected capital expenditure The Group concluded that no impairment charge was required at 30 June 2018. This was a key audit matter due to the magnitude of the balances and the judgements required in determining the recoverable amount of the Keysbrook project.	We performed the following audit procedures, amongst others: • Evaluated the Group's assessment that there were indicators of asset impairment at 30 June 2018. • 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 the requirements of Australian Accounting Standards • Compared the key market related assumptions, being commodity prices and foreign exchange rates, to relevant external data. Forecast commodity prices were compared with published forecasts from external market experts on mineral sands commodity prices. Foreign exchange rates were compared with published forecasts from a range of investment banks. • Examined the assumptions on production volumes, future capital and operating expenditure and considered whether they were consistent with Group's Life of Mine Plans and operating budgets, as well as actual performance outcomes achieved to date. • Tested that the mine life used in the impairment calculations was consistent with reported JORC reserves and resources. • Evaluated the adequacy of the disclosures made in note 8(b) and (d), in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report and Corporate Directory. We expect the remaining other information to be made available to us after the date of this auditor's report, including Equity Securities, Corporate Governance Statement, Interest in Mining Tenements and Mineral Resources and Ore Reserves.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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.

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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/ar1.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 2018.

In our opinion, the remuneration report of MZI Resources Limited for the year ended 30 June 2018 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ben Gargett
Partner

Perth
25 September 2018

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