

ASX ANNOUNCEMENT

22 November 2018



Chairman's Address

2018 Annual General Meeting

Good morning Ladies and Gentlemen. It is a pleasure to once again address you as Chairman of MZI Resources at today's annual general meeting.

When I addressed you last year, I noted that the Company was in a state of transition following the initial development of our flagship Keysbrook Project. I also commented that the lessons learned during the initial phase of production, coupled with the significant processing upgrades being implemented, were cause for great optimism that this year would herald a fundamental turnaround in our performance.

Standing here today, it is fair to say that our Keysbrook project remains in a state of transition. We are disappointed that in certain areas, our operational performance over the last year has not been at the level at which we have been striving.

However, we should be encouraged by the substantial additional progress that has, as a result of our efforts to date, been very clearly made on several fronts.

Most significantly, we should be encouraged by the much deeper understanding that has been developed in recent months of the operational complexities of our business, and which has consequently allowed the management team to identify several new and exciting opportunities which, given time and adequate funding, will significantly improve business performance.

As we noted in our most recent quarterly activities report, the major upgrades implemented at Keysbrook have delivered significant improvements across a range of key operational benchmarks, most notably in terms of mining production, processing throughput and reliability, water and tailings management, and production of Heavy Mineral Concentrate (or HMC). In addition, Keysbrook continues to develop strong environmental credentials backed by positive stakeholder support.

Pleasingly, this has resulted in record HMC production in the September quarter and contributed to record quarterly product sales.

Unfortunately, while these milestones are noteworthy, they need to be tempered by the fact that these improvements have not been accompanied by the uplift in heavy mineral recovery that we have been seeking at both the WCP and the Picton MSP, most notably for our most valuable L88 product. L88 production is the key value driver for MZI, accounting for approximately two thirds of total revenue. Recovery underperformance has thus in turn significantly restricted our cashflows and working capital.

As a consequence of these developments, a comprehensive investigation has been undertaken by the Company to determine the optimum path to establishing a sustainable base for our business.

To that end, given our much-improved understanding of the unique challenges of processing leucoxene, an in-depth and wide-ranging analysis by the Technical Committee established earlier this year has clearly identified the key issues hindering our performance. In particular, the challenges centre around the limitations of the current Keysbrook flowsheet and restrictions in the effectiveness of certain equipment to deal with the physical characteristics of L88 in the ore body.

As we noted in the quarterly report, whilst increased throughput and processing improvements were achieved as a result of the successful implementation of the 5.25mtpa Operating Plan, the Technical Committee's work has indicated that the flowsheet as presently configured is unlikely to achieve the recovery and production objectives originally envisaged for Keysbrook. This assessment has in turn galvanised our view that, in order to achieve a step change in L88 recovery levels, a different approach needs to be taken to overcome the limitations and restrictions of the current flowsheet design.

Consequently, a number of alternative flowsheet options have been developed which are currently being carefully considered and evaluated by the Company. These options were described in some detail in our last quarterly report, but I believe they are well worth touching on briefly again today.

At Keysbrook, MZI is working closely with industry experts to assess potential options for more substantial modifications to the WCP circuit to deliver a step change in L88 recovery. Separate to this work, we are poised to relocate the MFU operations to the new MFU3 location, which is forecast to generate substantial operating cost benefits compared with the current configuration.

Meanwhile at Picton, considerable research work has been completed over the last four months in partnership with metallurgical experts, METS Engineering, to identify and evaluate additional opportunities to increase L88 recovery at the Picton MSP, with a focus on the zircon circuit.

Results to date from this research are extremely promising and have identified clear potential to recover most of the L88 material that is currently being "lost" to the zircon concentrate, whilst also enabling production of a higher purity, higher value, premium zircon sands product.

This study is well advanced, and subject to further approvals and secured funding, we could be able to move forward to equipment and circuit trials at Picton in early 2019. Such trials at the MSP will then clearly define the parameters necessary to unlock substantial long-term value through a full-scale project implementation.

These opportunities to improve L88 production and to create a more valuable zircon product, provide cause for optimism for the coming year, as do the continued healthy state and outlook for the markets in which we operate.

However, as I noted earlier, the limitations and performance of Keysbrook in its current operational configuration has significantly constrained both cashflow and working capital and created several short-term funding and debt service issues that are being addressed.



In this regard we are very grateful, and offer our sincere appreciation, for the strong ongoing support that we have received from our major shareholder Resource Capital Fund VI LP (RCF) and our senior debt provider RMB Australia Holdings Limited (RMB).

This support has enabled us to successfully restructure our near-term funding arrangements with both RCF and RMB. We also continue to discuss with these and other parties the future structure and amount of our funding requirements to better align the Company's debt repayment schedule with its cashflow projections.

The ongoing optimisation test work and trials into further modifications to deliver a step change in L88 production and other potential enhancements, will require additional funding support.

MZI is therefore also working on a range of financial strategies to obtain the funding to allow these improvement initiatives to be pursued.

It is fair to say that we are all disappointed that it has taken longer than expected to realise the level of performance at Keysbrook that we originally anticipated, which has prevented us from demonstrating the long-term value embodied in the Project. The knowledge that the Company has gained in the processing of leucoxene is extremely valuable, and we are comforted by the operational improvements that the Technical Committee has identified to address the recovery underperformance in L88. Accordingly, subject to securing adequate short-term funding and satisfactory debt repayment arrangements with RMB and RCF as well as funding support for the performance improvements, we retain our optimism and confidence in the future of the Keysbrook Operations and I look forward to sharing the next stage of MZI's journey and evolution with you.

In closing, I thank my fellow directors, and MZI management and staff for their efforts throughout the year. I would also like to thank MZI shareholders for your patience and continued loyalty.

Lastly, I thank our advisors and our auditors PricewaterhouseCoopers for their ongoing assistance to the Company, and in addition I single out the support and assistance that we continue to receive from Doral Mineral Sands the operators of the Picton MSP, our offtake partners the Chemours Company and Tricoastal Minerals (Holdings) Company Limited, as well as management and stakeholders in the shires of Murray and Serpentine - Jarrahdale.

Rod Baxter
Chairman

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About MZI

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

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