



mzi
resources

and its controlled entities

ABN 52 077 221 722

INTERIM FINANCIAL REPORT

For the half-year ended 31 December 2018

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1 Corporate Directory

1.1 Board of Directors

| | |
|----------------------|--|
| Rodney Baxter | Independent Non-Executive Chairman |
| 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.

DIRECTORS' REPORT

2 Directors' Report

The Directors present their report on the Consolidated Entity comprising MZI Resources Ltd (the "Company" or "MZI") and its controlled entities ("the Group") for the half-year ended 31 December 2018.

2.1 Directors

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

- ▶ Rodney Baxter Independent Non-Executive Chairman
- ▶ Chi To (Nathan) Wong Non-Independent Non-Executive Director
- ▶ Maree Arnason Independent Non-Executive Director
- ▶ Ronnie Beavor Non-Independent Non-Executive Director
- ▶ Yuzi (Albert) Zhou Non-Independent Non-Executive Director
- ▶ Martin Purvis¹ Managing Director

¹ Mr Purvis resigned as Managing Director on 29 January 2019

2.2 Operating and Financial Review

2.2.1 Operating Result

The consolidated net loss for the half-year ended 31 December 2018 applicable to owners of the Company after income tax was \$32,251,000 (2017: \$11,339,000).

2.2.2 Review of Operations

The following significant events occurred during the half year:

- ▶ Half year HMC output rose by 21% to 64,531t while saleable production for the half year to December increased 14% from the prior half year to 44,555t;
- ▶ Sales volumes increased by 56% to 46,352t compared to the prior corresponding half with sales proceeds received of \$34.239m;
- ▶ Per unit cash costs reduced 35% over the closing quarter of 2018 compared to prior quarter;
- ▶ Keysbrook Mine Feed Unit successfully relocated on time, safely and within budget;
- ▶ Process initiated to explore a sale or alternative transaction to realise value from the Keysbrook assets, with the support of Resource Capital Fund VI LLC ("RCF") and RMB Holdings Australia Limited ("RMB").

2.2.3 Keysbrook

The Group recorded 1 Lost Time Injury during the half year ending 31 December 2018.

The primary focus during the half year to December was improvement in operational throughput and reduction in operating costs. HMC production over the period totalled 64,531t, resulting from an increased focus on feed control, improved plant availability and the commissioning of an on-site laboratory at the Wet Concentrator Plant ("WCP"). During November the Group relocated the Mine Feed Unit to a new location approximately 1km east of the Keysbrook WCP. The relocation was part of the mining plan and represented a key step in the ongoing operational improvement program at Keysbrook. The relocation was completed safely, on time, within budget and significantly, the move to a centralised location is expected to reduce average haulage distances and associated costs for the forthcoming year of operations.

The improved efficiencies aim to facilitate further reductions in cash costs at Keysbrook that have been demonstrated from the start of the current financial year, including a 35% reduction in unit cash costs in the December quarter. Monthly site operating costs, per tonne of HMC, have declined by approximately 50% since January 2018. Operational reliability has similarly improved with downtime hours declining by approximately 60% since January 2018.

Research into recovery of L88 product commenced during the half year with industry experts commissioned to assess the current recovery and potential options to improve performance. Initial research has indicated that L88 recovery is restricted due to overloading of the mid-spiral sections of the WCP, resulting in ineffective separation of the finer L88 particles in the ore from the surrounding mass of larger, but equally dense, quartz particles. A range of short-

term modifications to the WCP were implemented during the latter half of 2018 and work continues with experts to ascertain options available for more substantial modifications to the WCP.

At the Picton Mineral Separation Plant ("MSP"), saleable production for the half year increased 14% to 44,555t compared to the prior half year. As noted previously, achieving targeted recovery of L88 product remains a challenge to the business and extensive work has been undertaken during the period to evaluate opportunities to improve recovery at the MSP. Detailed research undertaken by METS Engineering has confirmed the potential to recover not only the majority of L88 currently being lost to zircon concentrate but also the potential to produce a high quality zircon product. The evaluation work will continue into the next quarter involving a detailed engineering study and pilot scale test to be conducted at the Picton site, in agreement with plant owner, Doral Mineral Sands Pty Ltd.

Key operating statistics for the period ending 31 December 2018 are shown below.

Sales revenue for the half year ending 31 December 2018 totalled \$34.239m (2017: \$19.123m).

| Production | Unit | 31 Dec 18 | 31 Dec 17 |
|----------------------|------|-----------|-----------|
| Ore Mined | dt | 2,491,053 | 1,841,500 |
| Ore Processed | dt | 2,502,163 | 1,583,265 |
| Mined Grade | % HM | 3.04 | 3.28 |
| WCP Availability | % | 92.5 | 88.6 |
| MSP Availability | % | 96.5 | 94.5 |
| HMC Production (WCP) | dt | 64,531 | 53,239 |
| HMC Processed (MSP) | dt | 64,267 | 51,394 |
| L70 | dt | 16,807 | 16,449 |
| L88 | dt | 16,225 | 12,516 |
| Zircon Concentrate | dt | 11,523 | 10,286 |
| Total Products | dt | 44,555 | 39,251 |
| Sales | | | |
| L70 | dt | 17,309 | 9,406 |
| L88 | dt | 17,164 | 11,126 |
| Zircon Concentrate | dt | 11,879 | 9,218 |
| Total | dt | 46,352 | 29,750 |

2.2.4 Geology & Exploration

In October 2018 the Company released an updated Keysbrook Mineral Resource of 138.9 Mt grading 2.0% Total Heavy Minerals (THM), and an updated Ore Reserve of 57.6 Mt grading 2.2% THM as at 30 June 2018.

The Keysbrook Ore Reserve Statement includes 53.0 Mt in the Proven Category and 4.6 Mt in the Probable Category, sufficient to support a mine life of approximately 10 years at current production rates.

A planned drilling programme is forecast to commence in April 2019. The exploration programme will focus on closed spaced drilling at Keysbrook for grade control purposes, and resource definition drilling within E70/2407.

2.2.5 Corporate

At the end of the half year, the Group held \$6.697m in cash and undrawn credit facilities of \$0.588m.

As announced subsequent to the half year end, the Company has initiated a process to explore a sale or alternative transaction to realise the value inherent in the Keysbrook mineral sands assets. This announcement is the culmination of lengthy discussions with both RMB and RCF regarding the restructuring of funding arrangements, to better align the Company's requirements with current operational capacity and to explore alternative ways to fund the value initiatives identified.

In support of this process, RCF has agreed in principle to key terms for a short-term funding package and other financial accommodation. This includes providing an additional US\$1.5m to be utilised as working capital (subject to receipt of an ASX waiver and documentation) and an extension of the maturity date of the existing RCF Convertible Loan Facility to 1 July 2020. Royalty payments due to RCF will continue to accrue but payment will be deferred until 30 June 2019.

DIRECTORS' REPORT

A further US\$5.7m in funding will also be made available in March 2019 subject to RCF being satisfied with the Company's progress with, and likely outcomes from, the sale or transaction process. In parallel, RMB has agreed to defer principal repayments owing under the senior debt facility until 30 June 2019 and extend current debt covenant waivers until 1 January 2020.

RCF and RMB have indicated support for any potential sale or other transaction to be conducted on a "going concern" basis, with operations at site continuing on a business as usual basis. Value initiatives, including the proposed upgrades at Keysbrook and Picton continue to be advanced alongside the potential sale or alternative transaction process. RCF has indicated that it would be willing to consider a restructure of the existing debt obligations to allow a going concern sale or transaction to occur.

Included in the Consolidated Interim Financial Statements for the half-year ended 31 December 2018 is an independent auditor's review report which includes an Emphasis of Matter paragraph in regard to the existence of a material uncertainty that may cast doubt about the Group's ability to continue as a going concern. For further information, refer to Note 2 to the financial statements, together with the auditor's review report.

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

3 Events Subsequent to the end of the Reporting Period

On 7 January 2019, the Company issued 29,139,295 fully paid ordinary shares at an issue price of \$0.0355 per share to RCF for payment of interest for the December 2018 quarter, associated with the Keysbrook finance facilities.

On 21 January 2019, the Company announced that it had secured additional funding to support a process to explore a sale or alternative transaction to realise value of the Keysbrook Mineral Sands assets.

On 29 January 2019, the Company announced the resignation of Martin Purvis from the position of Managing Director.

On February 4 2019, the Company announced the appointment of John Westdorp to the position of Interim Chief Executive Officer.

4 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.

5 Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is included on page 7 of this financial report.

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



R Baxter
Chairman
Perth, Western Australia
12 March 2019



Auditor's Independence Declaration

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

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

A handwritten signature in black ink, appearing to read 'Ben Gargett', written in a cursive style.

Ben Gargett
Partner
PricewaterhouseCoopers

Perth

12 March 2019

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2018

6 Financial Statements

6.1 Condensed Consolidated Statement of Comprehensive Income

| | Note | 31 Dec 18 \$'000 | 31 Dec 17 \$'000 |
|--|------|---------------------|---------------------|
| Continuing Operations | | | |
| Revenue from sales | | 34,239 | 19,123 |
| Costs of production | | (26,898) | (13,637) |
| | | 7,341 | 5,486 |
| Depreciation and amortisation | | (6,620) | (5,975) |
| Other operating costs relating to sales | | (7,990) | (4,677) |
| Gross Loss | | (7,269) | (5,166) |
| Other income | | 28 | 34 |
| Corporate expense | | (2,220) | (2,282) |
| Other expenses | 5 | (9) | - |
| Gain /(Loss) on foreign exchange | 5 | (6,966) | 1,805 |
| Fair value movements on financial instrument derivatives | 5 | (902) | 2,188 |
| Loss before Finance and Tax | | (17,338) | (3,421) |
| Fair value movement on financial instrument embedded derivative | 5 | 46 | 1,631 |
| Finance expenses | | (14,959) | (9,549) |
| Loss before Tax | | (32,251) | (11,339) |
| Tax expense | | - | - |
| Loss after Tax from Continuing Operations | | (32,251) | (11,339) |
| Attributable to: | | | |
| Equity holders of the parent | | (32,251) | (11,339) |
| 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 | | (2,570) | 47 |
| Total Comprehensive Loss for the Year | | (34,821) | (11,292) |
| Attributable to: | | | |
| Equity holders of the parent | | (34,821) | (11,292) |
| Basic and diluted loss per share (cents per share) | | (0.12) | (0.05) |

The above condensed consolidated statement of comprehensive income should be read in conjunction with accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

6.2 Condensed Consolidated Statement of Financial Position

| | Note | 31 Dec 18 \$'000 | 30 Jun 18 \$'000 |
|--|------|---------------------|---------------------|
| Current Assets | | | |
| Cash and cash equivalents | | 6,697 | 7,229 |
| Trade and other receivables | | 11,019 | 14,628 |
| Inventories | 8 | 7,905 | 10,001 |
| Other current assets | | 917 | 1,185 |
| Total Current Assets | | 26,538 | 33,043 |
| Non-Current Assets | | | |
| Trade and other receivables | | 635 | 696 |
| Property, plant and equipment | | 89,822 | 92,907 |
| Exploration and evaluation expenditure | | 1,192 | 1,062 |
| Mine development expenditure | | 36,024 | 37,767 |
| Total Non-Current Assets | | 127,673 | 132,432 |
| Total Assets | | 154,211 | 165,475 |
| Current Liabilities | | | |
| Trade and other payables | | 14,896 | 15,955 |
| Provisions | | 3,432 | 3,401 |
| Other financial liabilities | 6 | 5,091 | 2,193 |
| Borrowings | 7 | 57,724 | 47,633 |
| Total Current Liabilities | | 81,143 | 69,182 |
| Non-Current Liabilities | | | |
| Provisions | | 7,673 | 7,458 |
| Other financial liabilities | 6 | 1,850 | 2,166 |
| Borrowings | 7 | 132,532 | 122,926 |
| Total Non-Current Liabilities | | 142,055 | 132,550 |
| Total Liabilities | | 223,198 | 201,732 |
| Net Assets / (Liability) | | (68,987) | (36,257) |
| Equity | | | |
| Share capital | 9 | 123,654 | 121,667 |
| Reserves | | (2,388) | 78 |
| Accumulated losses | | (190,253) | (158,002) |
| Total Equity | | (68,987) | (36,257) |

The above condensed consolidated statement of financial position should be read in conjunction with accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2018

6.3 Condensed 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 2017 | 117,908 | 1,114 | (1,541) | 2,572 | 1,052 | (122,579) | (1,474) |
| Loss for the half-year | | | | | | (11,339) | (11,339) |
| Other comprehensive income | - | 47 | - | - | - | - | 47 |
| Total Comprehensive Loss for the Half-Year | - | 47 | - | - | - | (11,339) | (11,292) |
| Transactions with Owners in their Capacity as Owners: | | | | | | | |
| Shares issued (net of costs) | 1,884 | - | - | - | - | - | 1,884 |
| Recognition of share-based payments | - | - | 88 | - | - | - | 88 |
| Balance at 31 December 2017 | 119,792 | 1,161 | (1,453) | 2,572 | 1,052 | (133,918) | (10,794) |
| Balance at 1 July 2018 | 121,667 | (2,177) | (1,369) | 2,572 | 1,052 | (158,002) | (36,257) |
| Loss for the half-year | | | | | | (32,251) | (32,251) |
| Other comprehensive income | - | (2,570) | - | - | - | - | (2,570) |
| Total Comprehensive Loss for the Half-Year | - | (2,570) | - | - | - | (32,251) | (34,821) |
| Transactions with Owners in their Capacity as Owners: | | | | | | | |
| Shares issued (net of costs) | 1,987 | - | - | - | - | - | 1,987 |
| Recognition of share-based payments | - | - | 104 | - | - | - | 104 |
| Balance at 31 December 2018 | 123,654 | (4,747) | (1,265) | 2,572 | 1,052 | (190,253) | (68,987) |

The above condensed consolidated statement of changes in equity should be read in conjunction with accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2018

6.4 Condensed Consolidated Statement of Cash Flows

| | Note | 31 Dec 18 \$'000 | 31 Dec 17 \$'000 |
|---|------|---------------------|---------------------|
| Cash Flows from Operating Activities | | | |
| Receipts from customers | | 29,505 | 21,911 |
| Interest received | | 248 | 7 |
| Payments to suppliers and employees (inclusive of GST) | | (33,711) | (25,257) |
| Withholding tax paid | | (565) | - |
| Receipt of research and development incentive claim | | 9,529 | - |
| Release of bonds / guarantees | | 61 | - |
| Interest and other bank fees paid | | (3,920) | (1,925) |
| Net Cash Flows from Operating Activities | | 1,147 | (5,264) |
| Cash Flows from Investing Activities | | | |
| Payments for exploration and evaluation | | (141) | (196) |
| Payments for property, plant and equipment | | (3,651) | (2,376) |
| Other outflows or income from investing | | (844) | 1,023 |
| Net Cash Flows from Investing Activities | | (4,636) | (1,549) |
| Cash Flows from Financing Activities | | | |
| Proceeds from borrowings | | 10,285 | 6,570 |
| Repayment of borrowings | | (7,453) | (5,296) |
| Net Cash Flows from Financing Activities | | 2,832 | 1,274 |
| Net (decrease)/increase in cash and cash equivalents | | (657) | (5,539) |
| Cash and cash equivalents at the beginning of the year | | 7,229 | 10,656 |
| Effect of exchange rate fluctuations on cash held | | 125 | (50) |
| Cash and Cash Equivalents at the End of the Year | | 6,697 | 5,067 |

The above condensed consolidated statement of cash flows should be read in conjunction with accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

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Note 1: Corporate Information

The condensed consolidated interim financial statements of MZI Resources Ltd and its subsidiaries (collectively, the "Group") for the half-year ended 31 December 2018 were authorised for issue in accordance with a resolution of Directors on 11 March 2019.

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

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

Note 2: Summary of Significant Accounting Policies

(a) Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by MZI Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(b) Going Concern

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

During the half year ended 31 December 2018, the Group incurred a loss after tax of \$32.251m and at balance date, the Group had a net liability position of \$68.987m. The Group realised a net cash inflow of \$1.147m from operational activities during the half year and at 31 December 2018 the Group held cash and cash equivalents of \$6.697m. The Group had a working capital deficit, inclusive of provisions and financial instruments, of \$54.605m at 31 December 2018.

As previously announced, the Directors have initiated a process to explore a sale or other alternative transaction with the intention to realise the value inherent in the Keysbrook Mineral Sands assets. To support this process, The Company reached an agreement in January 2019 with major shareholder and subordinated debt financier RCF for a short-term funding package and other financial accommodation, including the provision of US\$1.5m as an addition to existing debt facilities, with the potential to provide a further US\$5.7m subject to compliance with certain conditions. In addition, the Company has secured the deferral of principal repayments due under the RMB Senior Debt Facility until 30 June 2019 and an extension of the debt covenant waivers until 1 January 2020. RCF have similarly granted the Company a deferral on the repayment date for the US\$21m convertible loan facility until 1 July 2020. Both lenders have indicated support for any potential sale or other transaction to be conducted on a going concern basis, with operations at site continuing.

The Company has appointed Azure Capital as financial advisor to assist in this process. Concurrent with the sale of transaction process, potential options to refinance and / or restructure the Group's existing debt facilities continue to be investigated.

Subject to a suitably attractive proposal being received, RCF has indicated that it would be willing to consider a restructure of their existing debt obligations to allow a going concern sale or transaction to occur.

The Group prepares cash flow forecasts based on the life of the Keysbrook Project. The forecast at the Keysbrook Project subsidiary level is based on assumptions relating to heavy mineral prices, forecast production outputs, sales volumes and values and the achievement of predicted operating costs. The Group forecast demonstrates the need for additional funding to provide the necessary working capital for the Company to implement the value initiatives identified and continue as a going concern.

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

Notwithstanding these matters, the Directors believe that the Group will be able to secure funding sufficient to meet the requirements to continue as a going concern or alternatively complete a transaction on a going concern basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2018

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

(c) Comparatives

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current half-year ended 31 December 2018.

(d) Adoption of new and revised Accounting

A number of new or amended standards became applicable for the current reporting period and the Group has had to change its accounting practices and consider the financial impact resulting from adoption of the following standards;

- ▶ AASB 9 Financial Instruments, and
- ▶ AASB 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 31 December 2018 are outlined below.

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$75,327. Although this agreement is not formally documented as a lease contract, the arrangement has been in place for more than 12 months and therefore the requirement under AASB 16 may apply. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

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 3: Changes in Accounting Policies

This note explains the impact on the Group's financial statements resulting from adoption of AASB 9 – Financial Instruments and AASB 15 – Revenue from Contracts with Customers and describes changes to the relevant accounting policies that have been applied from 1 July 2018.

(a) Impact on financial statements

The Group has assessed the financial impact caused by adoption of the new accounting standards and concluded that no adjustments to prior period comparatives was necessary.

(b) AASB 9 Financial Instruments – Changes to Accounting Policies

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. The Group currently measures financial assets and financial liabilities at fair value through profit and loss, or at amortised cost and there is no change in classification or measurement for any financial assets or liabilities from the prior period.

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, assessed prior period credit losses and determined 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 introduction of AASB 9 did 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.

As a result of the adoption of AASB9, there was no adjustment to the opening balance sheet or retained earnings.

(c) AASB 15 Revenue from Contracts with Customers – Changes to Accounting Policies

The Group has adopted AASB 15 – Revenue from Contracts with Customers from 1 July 2018 using the cumulative effect method. Accordingly, the information presented for 2017 has not been restated. Additionally, the disclosure requirements in AASB 15 are not required to be applied to comparative information. The new standard establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The framework is based on a five-step process where revenue is recognised based upon completion of distinct performance obligations. The standard introduces the concept of separate performance obligations that may arise from a single contract of sale, with revenue recognised at the time each obligation is fulfilled or over the course of fulfilling that obligation.

The Group's new accounting policy for revenue recognition is set out below.

(i) Revenue from product sales

Revenue from the sale of products is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, no further work or processing is required by the Group, the quantity and quality of the products have been determined with reasonable accuracy, the price can be reasonably estimated and collectability is reasonably assured.

The above conditions are generally satisfied when title passes to the customer, typically on the bill of lading date when the product is delivered to the vessel. Accordingly, revenue from sales of mineral sands product is recognised at a point of time on the bill of lading date at an invoiced amount.

Revenue is measured based upon quantity of product shipped and rates agreed under contract of sale.

(ii) Shipping and freight service revenue

Revenue from provision of shipping and freight services is recognised in the accounting period in which the services are rendered.

The Group sells its Zircon products on Cost, Insurance and Freight (CIF) terms, which means that the Group is responsible for shipping the product to a destination port specified by the customer. The shipping service is recognised separately from the sale of the Zircon product. Revenue from shipping service is recognised over the time, i.e. over the period of transfer of the mineral sand product to the customer.

(iii) Impact of transition to AASB 15

There was no adjustment to the Group's statement of financial position as a result of adoption of AASB 15.

The Group has considered the impact on its consolidated Financial Statements resulting from the application of AASB 15. The Group recognises revenue from the sale of mineral sands products delivered in bulk shipments only for L70 & L88 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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

fulfilled and revenue recognised. The remaining product, zircon concentrate, is sold on CIF terms. Under AASB 15 the provision of insurance and freight is deemed a separate performance obligation and this component will be independently presented as freight revenue. The variation in classification of revenue is not expected to have a material impact on the total value of reported revenue.

Disaggregation of revenue;

| | 31 Dec 18 \$'000 | 31 Dec 17 \$'000 |
|--|---------------------|---------------------|
| Mineral sands products revenue recognised at a point in time | 34,000 | 19,123 |
| Shipping service revenue recognised over time | 239 | - |
| | 34,239 | 19,123 |

Note 4: Segment Reporting

| 31 Dec 18 | Tiwi Island Projects \$'000 | Keysbrook Project \$'000 | Unallocated Corporate / Other \$'000 | Consolidated \$'000 |
|----------------------------|-----------------------------------|--------------------------------|---|------------------------|
| Segment revenue - external | - | 34,239 | - | 34,239 |
| Other revenue | - | 10 | 18 | 28 |
| Finance expenses | - | (14,749) | (210) | (14,959) |
| Segment results | (285) | (29,833) | (2,133) | (32,251) |
| Segment assets | 694 | 148,990 | 4,527 | 154,211 |
| Segment liabilities | 397 | 221,709 | 1,092 | 223,198 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Note 5: Expenses

| | 31 Dec 18 \$'000 | 31 Dec 17 \$'000 |
|--|---------------------|---------------------|
| Other expenses | | |
| Impairment of exploration and evaluation | (9) | - |
| | (9) | - |
| Loss on foreign exchange | | |
| Net (loss) / gain on foreign exchange | (6,966) | 1,805 |
| | (6,966) | 1,805 |
| Fair value movements on financial instrument derivatives | | |
| Fair value movement on contractual derivatives – (loss) / gain | (58) | 1,192 |
| Realised movement on currency hedges – (loss) / gain | (844) | 996 |
| | (902) | 2,188 |
| Fair value movements on financial instrument embedded derivatives | | |
| Fair value movement on loan derivatives – gain / (loss) | 46 | 1,631 |

Note 6: Other Financial Assets and Liabilities

| | 31 Dec 18 \$'000 | 30 Jun 18 \$'000 |
|--|---------------------|---------------------|
| Current Financial Liabilities | | |
| Embedded contractual derivative (ii) | 1,355 | 898 |
| Embedded derivatives (iii) | 2 | 48 |
| Cash flow hedges (iv) | 3,734 | 1,247 |
| | 5,091 | 2,193 |
| Non-current Financial Liabilities | | |
| Other financial liabilities (i) | 175 | 175 |
| Embedded contractual derivative (ii) | 640 | 1,039 |
| Cash flow hedges (iv) | 1,035 | 952 |
| | 1,850 | 2,166 |

Financial Assets and Liabilities are measured in accordance with AASB 9 at either fair value through profit and loss or at amortised cost. There has been no change in valuation due to adoption of the new accounting standard and no impact upon prior comparatives.

(i) Other Financial Liabilities

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

(ii) Embedded Contractual Derivatives – L88

During the half 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 31 December 2018, the fair value of the embedded derivative associated with the L88 contract was a current liability of \$1.355m and a non-current financial liability of \$0.640m (June 2018: current financial liability of \$0.898m and non-current financial liability of \$1.039m).

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

(iii) Embedded derivatives - Finance Facilities

At 31 December 2018, the fair value of the embedded derivative associated with the US\$21.000m Convertible Loan facility is nil (June 2018: \$0.004m).

At 31 December 2018, the fair value of the embedded derivatives associated with the US\$8.000m Bridge Finance facilities was \$0.002m (June 2018: \$0.044m).

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

(iv) Cash Flow Hedges

During the half year to 31 December 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 \$2.570m (December 2017: Gain of \$0.047m) relating to the valuation of the hedging instruments at 31 December 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 | |
|-------------|-----------------------|-----------|---|-----------|---------------|-----------|
| | December 2018 | June 2018 | December 2018 | June 2018 | December 2018 | June 2018 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 1 - 2 years | 59,304 | 53,524 | 0.7657 | 0.7739 | (4,745) | (2,176) |

Fair Value hierarchy of financial instruments

The following table represent the Group's financial instruments measured and recognised at fair value at 31 December 2018 on a recurring basis:

| December 2018 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Financial liabilities | | | | |
| Foreign currency hedging contracts | - | 4,745 | - | 4,745 |
| Embedded derivative associated with L88 Contract | - | - | 1,995 | 1,995 |
| Embedded derivative associated with Convertible Loan | - | - | - | - |
| Embedded derivative associated with Bridge Finance Facilities | - | - | 2 | 2 |
| Interest rate swap | - | 24 | - | 24 |

| June 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 |

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

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 model

The following table presents the changes in Level 3 items for the periods ended 31 December 2017 and 31 December 2018:

| | Embedded Financial Derivatives | Embedded Contractual Derivatives |
|---|-----------------------------------|-------------------------------------|
| Opening Balance 1 July 2017 | (2,211) | (2,734) |
| Transfer from Level 2 | - | - |
| Gains / (Losses) recognised as fair value movements | 1,631 | 981 |
| Closing Balance 31 December 2017 | (580) | (1,753) |
| Opening Balance 1 July 2018 | (48) | (1,937) |
| Transfer from Level 2 | - | - |
| Gains / (Losses) recognised as fair value movements | 46 | (58) |
| Closing Balance 31 December 2018 | (2) | (1,995) |

Note 7: Loans and Borrowings

| | 31 Dec 18 \$'000 | 30 Jun 18 \$'000 |
|---------------------------|---------------------|---------------------|
| Current | | |
| Senior facility | 17,002 | 10,824 |
| Convertible loan (ii) | 27,982 | 24,822 |
| Working capital facility | 4,250 | 4,059 |
| Mortgage facilities | 5,474 | 4,197 |
| Bank loan | 201 | 242 |
| Insurance premium funding | - | 326 |
| Hire purchase | 2,815 | 3,060 |
| Other party settlement | - | 103 |
| Total | 57,724 | 47,633 |
| Non-Current | | |
| Bridge facility | 11,044 | 10,459 |
| Senior facility | 26,211 | 33,148 |
| Term Loan (i) | 94,282 | 73,407 |
| Mortgage facilities | 261 | 3,393 |
| Bank loan | - | 81 |
| Hire purchase | 734 | 2,438 |
| Total | 132,532 | 122,926 |

- (i) During the half year to December 2018, the Group has drawn down US\$7.5m from Tranche B of the 3 year Term Loan facility provided by Resource Capital Fund VI L.P. ("RCF") in the prior year.
- (ii) Subsequent to the half year end, on the 21st of January 2019, RCF agreed to grant an extension to the expiry date of the Convertible Loan Facility from 26 May, 2019 to 1 July, 2020.
- (iii) For further disclosures on loans and borrowings refer to Note 2b.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Note 8: Inventories

| | 31 Dec 18 \$'000 | 30 Jun 18 \$'000 |
|---|---------------------|---------------------|
| Heavy mineral concentrate and other intermediate stockpiles - at cost | 2,212 | 132 |
| Heavy mineral concentrate and other intermediate stockpiles - at NRV | 356 | 3,070 |
| Finished goods stockpiles – at cost | 416 | - |
| Finished goods stockpiles - at NRV | 3,144 | 5,398 |
| Stores and consumables - at cost | 1,777 | 1,401 |
| Total | 7,905 | 10,001 |

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

The NRV write-down for the half-year ended 31 December 2018 was \$1.819m (June 2018: \$2.331m).

Note 9: Equity

(a) Issued Capital

Ordinary shares on issue

| | 31 Dec 18 \$'000 | 30 Jun 18 \$'000 |
|--|---------------------|---------------------|
| 230,552,731 (30 June 2018: 246,129,415) ordinary fully paid shares | 123,654 | 121,667 |

Movements in ordinary share capital

| | No. of Shares | \$'000 |
|--|---------------|---------|
| Issued shares: | | |
| At 1 July 2018 | 246,129,415 | 121,667 |
| Shares issued pursuant to a Facility Agreement (i) | 21,906,484 | 1,987 |
| Share issue costs | - | - |
| As at 31 December 2018 | 268,035,899 | 123,654 |

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

Note 10: Cash Flow Information

During the half-year ended 31 December 2018, the following non cash financing transactions occurred:

- ▶ 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 5 October 2018, the Company issued 9,362,419 fully paid ordinary shares at an issue price of \$0.1079 per share to RCF for payment of interest for the September 2018 quarter, associated with the Keysbrook finance facilities.

Note 11: Contingent Assets and Liabilities

As disclosed in the 30 June 2018 Annual Report, the Group has an \$11.5m Bank Guarantee Facility with RMB Resources Limited.

Note 12: Commitments

The Directors are not aware of any capital or other commitments as at 31 December 2018 that are not disclosed in the 30 June 2018 Annual Report.

Note 13: Events Occurring After the Reporting Period

On 7 January 2019, the Company issued 29,139,295 fully paid ordinary shares at an issue price of \$0.0355 per share to RCF for payment of interest for the December 2018 quarter, associated with the Keysbrook finance facilities.

On 21 January 2019, the Company announced that it had secured additional funding to support a process to explore a sale or alternative transaction to realise value of the Keysbrook Mineral Sands assets.

On 29 January 2019, the Company announced the resignation of Martin Purvis from the position of Managing Director.

On February 4 2019, the Company announced the appointment of John Westdorp to the position of Interim Chief Executive Officer.

Refer to Note 2b for additional information on subsequent events.

Note 14: Related Party Transactions

The following transactions were undertaken between any Group Company and the following Director-related parties during the half year ended 31 December 2018:

- ▶ Tricoastal Minerals (Holdings) Company Limited, an entity in which Mr CT Wong has a beneficial interest, was paid Director's fees of \$0.041m. At 31 December 2018, an amount of \$0.020m was owed to Tricoastal Minerals (Holdings) Company Limited.
- ▶ During the half year ended 31 December 2018, the Company sold zircon concentrate product for \$12.6m from its Keysbrook project to Tricoastal Minerals (Holdings) Company Limited. 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\$1.459m and interest of \$6.398m was capitalized.

In addition, during the half year an amount of US\$7.500m was drawn down in relation to Tranche B of the RCF Term Loan Facility.

7 Directors' Declaration

The directors declare that:

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

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

R Baxter
Chairman

A handwritten signature in dark ink, appearing to be 'R Baxter', written in a cursive style.

Perth, Western Australia
12 March 2019

8 Independent Auditor's Review Report



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MZI Resources Limited (the Company), which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration for the MZI Resources Limited Group (the Group). The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of MZI Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 2(b) in the financial report, which indicates that the Group has net liabilities of \$68.987 million as at 31 December 2018 and recorded a net loss after tax of \$32.251 million for the half-year then ended. The Group's ability to continue as a going concern is dependent upon successfully executing a sale or other alternative transaction and/or being able to renegotiate, extend or refinance the Group's borrowings. These conditions, along with other matters as set forth in Note 2(b) indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature of 'Ben Gargett' in a cursive script.

Ben Gargett
Partner

Perth

12 March 2019



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