



INTERIM FINANCIAL REPORT
For the half-year ended 31 December 2014

DIRECTORS' REPORT

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Malcolm Randall	Non-Executive Chairman
Trevor Matthews	Managing Director
Chi To (Nathan) Wong	Non-Executive Director
Stephen Ward	Non-Executive Director

COMPANY SECRETARY

John Traicos

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
Web site: www.mzi.com.au

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace,
Perth, Western Australia, 6000

Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033
Email: perth.services@computershare.com.au
Web site: www.computershare.com.au

AUDITOR

HLB Mann Judd

SOLICITOR

Corrs Chambers Westgarth

SECURITIES EXCHANGE LISTING

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

CONTENTS

Directors' Report	3
Auditor's Independence Declaration	5
Condensed Consolidated Statement of Comprehensive Income	6
Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Statement of Cash Flows	9
Notes to the Condensed Consolidated Financial Statements	10
Declaration by Directors	21
Independent Auditor's Review Report	22

DIRECTORS' REPORT (Continued)

The Directors present the consolidated report of MZI Resources Ltd ("MZI" or the "Company") and its controlled entities (the "Group") for the half-year ended 31 December 2014.

DIRECTORS

The following persons were Directors of the Company during the whole of the half-year and up to the date of this report.

Malcolm Randall	Non-Executive Chairman
Chi To (Nathan) Wong	Non-Executive Director

Mr Trevor Matthews was appointed Managing Director on 15 December 2014 and continues in office at the date of this report.

Dr Stephen Ward was appointed as an independent Non-Executive Director on 1 March 2015 and continues in office at the date of this report.

Mr Keith Vuleta was a Director from the beginning of the financial year until his resignation on 15 December 2014.

Mr Peter Gazzard was a Director from the beginning of the financial year until his resignation on 1 March 2015.

RESULTS OF OPERATIONS

Consolidated net loss from continuing operations after income tax for the half-year was \$1.886m, compared to the previous corresponding half-year of \$5.098m. This was substantially the result of receipt of the US\$3.5m (A\$4.210m) royalty sale to Resource Capital Fund VI L.P. ("RCF").

REVIEW OF OPERATIONS

In early December 2014, the Group received funds of US\$37.5m from RCF and commenced the development of the Keysbrook Project. The receipt of these funds also allowed the Group to repay its short term debt of approximately US\$6.5m.

GR Engineering Services Limited commenced construction activities in December 2014 with a contract value of \$54.6m. Site works commence in early February 2015. Transmin Pty Ltd commenced construction of the mine feed unit with a contract value of \$4.7m and Western Power also commenced grid power connection works to a value of \$3.9m.

The Group also settled the acquisition of a property located in Keysbrook securing the location of the wet concentrator, project access road, bore fields, power infrastructure and the initial mining area. This, combined with two properties previously acquired in the Keysbrook Project area, makes the Group a significant landholder in the area.

Under the current project schedule construction and commissioning is due to be completed by December 2015 with first product shipments and revenue expected soon thereafter.

SUBSEQUENT EVENTS

On 8 January 2015, the Company issued 2,167,130 fully paid ordinary shares at a share price of \$0.2338 in satisfaction of interest and commitment fees for the quarter ending 31 December 2014 pursuant to the terms of the Facility Agreement with Resource Capital Fund VI L.P.

On 16 February 2015, the Company issued 822,280 fully paid ordinary shares for nil consideration in respect of performance rights granted under the employee incentive plan.

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 5 of this Financial Report and forms part of the Directors' Report.

DIRECTORS' REPORT (Continued)

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/100. This Company is an entity to which the class order applies.

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

A handwritten signature in dark ink, appearing to read 'Malcolm Randall', with a stylized, cursive script.

Malcolm Randall
Chairman

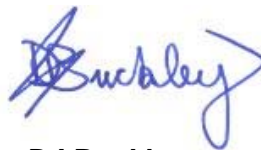
06 March 2015

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of MZI Resources Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
6 March 2015



D I Buckley
Partner

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2014

	Note	31 Dec '14 \$'000	31 Dec '13 \$'000
Continuing Operations			
Revenue from sales		-	-
Costs of production		-	-
Gross Profit before Depreciation, Amortisation and Other Operating Costs		-	-
Depreciation and amortisation		(100)	(100)
Other operating costs	2	(619)	(593)
Gross Loss		(719)	(693)
Other revenue		20	20
Other income	2	4,314	505
Corporate expenses	2	(3,363)	(4,124)
Other expenses	2	(56)	(448)
Treasury - realised gains/(losses)	2	(173)	(1)
Treasury - unrealised gains/(losses)	2	627	11
Gain/(loss) before Finance and Tax		650	(4,730)
Finance expenses	2	(2,536)	(368)
Loss before Tax		(1,886)	(5,098)
Tax expense		-	-
Loss after Tax from Continuing Operations		(1,886)	(5,098)
Attributable to:			
Equity holders of the parent		(1,886)	(5,098)
Other comprehensive loss:			
Effective portion of changes in fair value of cash flow hedges, net of tax	5(i)	(1,214)	-
Total Comprehensive Loss for the half-year		(3,100)	(5,098)
Attributable to:			
Equity holders of the parent		(3,100)	(5,098)
Basic and diluted loss per share (cents per share)		(2.67)	(9.39)

The 31 December 2013 basic and diluted loss per share has been restated to reflect the share consolidation, completed in December 2014.

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Note	31 Dec '14 \$'000	30 Jun '14 \$'000
Current Assets			
Cash and cash equivalents		21,527	1,106
Trade and other receivables		31	-
Other current assets		2,355	745
Total Current Assets		<u>23,913</u>	<u>1,851</u>
Non-Current Assets			
Trade and other receivables		613	673
Property, plant and equipment	4	20,519	3,863
Exploration and evaluation expenditure		1,673	1,488
Mine development expenditure		28,226	24,141
Total Non-Current Assets		<u>51,031</u>	<u>30,165</u>
Total Assets		<u>74,944</u>	<u>32,016</u>
Current Liabilities			
Trade and other payables		4,997	4,485
Provisions		1,266	1,225
Other financial liabilities	5	10,611	1,000
Borrowings	6	-	5,734
Total Current Liabilities		<u>16,874</u>	<u>12,444</u>
Non-Current Liabilities			
Trade and other payables		-	417
Provisions		150	127
Other financial liabilities	5	1,894	480
Borrowings	6	36,980	69
Total Non-Current Liabilities		<u>39,024</u>	<u>1,093</u>
Total Liabilities		<u>55,898</u>	<u>13,537</u>
Net Assets		<u><u>19,046</u></u>	<u><u>18,479</u></u>
Equity			
Share capital	7	66,124	63,715
Reserves		779	735
Accumulated losses		(47,857)	(45,971)
Total Equity		<u><u>19,046</u></u>	<u><u>18,479</u></u>

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2014

	Ordinary Shares \$'000	Cash Flow Hedge Reserve \$'000	Employee Share Trust Reserve \$'000	Share-based Payments Reserve \$'000	Accumulated Losses \$'000	Total \$'000
Balance at 1 July 2013	54,413	-	-	1,377	(37,665)	18,125
Loss for the half-year	-	-	-	-	(5,098)	(5,098)
Other comprehensive loss	-	-	-	-	-	-
Total Comprehensive Loss for the Half-Year	-	-	-	-	(5,098)	(5,098)
Transactions with Owners in their Capacity as Owners:						
Shares issued (net of costs)	6,640	-	-	348	-	6,988
Recognition of treasury shares	-	-	-	-	-	-
Balance at 31 December 2013	61,053	-	-	1,725	(42,763)	20,015
Balance at 1 July 2014	63,715	-	(1,394)	2,129	(45,971)	18,479
Loss for the half-year	-	-	-	-	(1,886)	(1,886)
Other comprehensive loss	-	(1,214)	-	-	-	(1,214)
Total Comprehensive Loss for the Half-Year	-	(1,214)	-	-	(1,886)	(3,100)
Transactions with Owners in their Capacity as Owners:						
Shares issued (net of costs)	2,409	-	-	-	-	2,409
Options issued	-	-	-	134	-	134
Recognition of share-based payments	-	-	754	370	-	1,124
Balance at 31 December 2014	66,124	(1,214)	(640)	2,633	(47,857)	19,046

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2014

	Note	31 Dec '14 \$'000	31 Dec '13 \$'000
Cash Flows from Operating Activities			
Payments to suppliers and employees		(5,066)	(5,513)
Interest received		9	20
Finance costs		(1,757)	(51)
Net Cash Flows from Operating Activities		<u>(6,814)</u>	<u>(5,544)</u>
Cash Flows from Investing Activities			
Receipt of security deposits		60	-
Receipt from sale of royalty		4,210	-
Receipt of Export Development Market Grants		104	-
Payments for exploration and evaluation expenditure		(219)	(316)
Payments for development expenditure		(8,478)	(2,535)
Payments for property, plant and equipment		(2,486)	(125)
Proceeds from sale of property, plant and equipment		-	187
Net Cash Flows from Investing Activities		<u>(6,809)</u>	<u>(2,789)</u>
Cash Flows from Financing Activities			
Proceeds from issue of shares and other securities		134	10,049
Share issue costs		(42)	(404)
Proceeds from borrowings		43,933	4,461
Repayment of borrowings		(8,270)	(571)
Borrowing costs		(1,711)	(152)
Net Cash Flows from Financing Activities		<u>34,044</u>	<u>13,383</u>
Net increase in cash and cash equivalents		20,421	5,050
Cash and cash equivalents at the beginning of the year		1,106	130
Cash and Cash Equivalents at the half-year		<u>21,527</u>	<u>5,180</u>

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements of MZI Resources Ltd and its subsidiaries (collectively, the “Group”) for the half-year ended 31 December 2014 were authorised for issue in accordance with a resolution of Directors on 06 March 2015.

MZI Resources Ltd (“MZI” or the “Company”) is a for-profit company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group’s principal activities are the exploration, development and production of mineral sands.

(a) Basis of preparation

These interim condensed consolidated financial statements for the half-year ended 31 December 2014 have been prepared in accordance with AASB 134 *Interim Financial Reporting*.

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at 30 June 2014.

(b) 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 2014. Certain comparative information, such as loss per share, share capital information and share based payments has been restated in accordance with the accounting standard requirements following the share consolidation completed during the half-year ended 31 December 2014. Refer to note 7 for further details regarding the share consolidation.

(c) Adoption of new and revised Accounting Standards

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2014, except for the adoption of new standards and interpretations noted below.

(d) Derivative financial instruments

Derivative financial instruments are recorded at fair value on the consolidated statement of financial position and classified based on contractual maturity. Derivative instruments are classified as either hedges of the fair value of recognised assets or liabilities or of firm commitments (“fair value hedges”), hedges of highly probable forecast transactions (“cash flow hedges”) or non-hedge derivatives. Derivatives designated as either a fair value or cash flow hedge that are expected to be highly effective in achieving offsetting changes in fair value or cash flows are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Derivative assets and derivative liabilities are shown separately in the statement of financial position unless there is a legal right to offset and the intent to settle on a net basis.

Fair value hedge

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

Cash flow hedges

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Non-hedge derivative

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

(e) Significant accounting estimates and assumptions

Except as described below, in preparing the interim financial report, the significant accounting estimates and assumptions made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual report for the year ended 30 June 2014.

Fair value of financial derivative instruments

The Group assesses the fair value of its financial derivative instruments in accordance with the accounting policy stated at note 1(d). 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 volatility and foreign exchange volatility. Changes in these assumptions about these factors could affect the reported fair value of financial instruments. Refer to note 5 for the assumptions applicable to the Group's financial derivative instruments.

Borrowing costs denominated in a foreign currency

Significant assumptions are made in determining the level of foreign currency gains or losses that are capitalised in accordance with the Group's policy on borrowing costs. The amount of borrowing costs, including foreign currency gains or losses, that are capitalised are capped to the hypothetical interest rate that the Company would have received had the borrowings been denominated in the functional currency of the Company. This hypothetical interest rate on the US dollar denominated borrowings is calculated at 10.97%.

(f) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, however the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2015 annual consolidated financial statements as a consequence of these amendments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

NOTE 2: REVENUE AND EXPENSES

	31 Dec '14 \$'000	31 Dec '13 \$'000
Other operating costs		
Care and maintenance	113	567
Royalties and landowner payments	506	26
	<u>619</u>	<u>593</u>
Other income		
Sundry income	104	-
Royalty sale	4,210	-
Profit on sale of assets	-	505
	<u>4,314</u>	<u>505</u>
Corporate expenses		
Audit and review fees	6	44
Consulting fees	554	1,017
Travel and accommodation	26	23
Occupancy costs	157	229
Share-based payments	970	348
Salaries and wages	1,019	1,677
Superannuation	171	154
Other	380	552
Directors' fees	80	80
	<u>3,363</u>	<u>4,124</u>
Other expenses		
Impairment expense	56	448
	<u>56</u>	<u>448</u>
Treasury - realised losses/(gains)		
Realised foreign exchange losses/(gains)	173	1
	<u>173</u>	<u>1</u>
Treasury - unrealised losses/(gains)		
Fair value movement on financial liability derivatives	(1,847)	-
Unrealised foreign exchange loss/(gain)	1,220	(11)
	<u>(627)</u>	<u>(11)</u>
Finance expenses		
Interest and fees on borrowings	2,536	368
	<u>2,536</u>	<u>368</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

NOTE 3: DIVIDENDS

There were no dividends paid or provided for during the half-year and up to the date of this report.

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

	Land \$'000	Work in Progress \$'000	Site Plant & Equipment \$'000	Office Equipment \$'000	Total \$'000
At 1 July 2014 net of accumulated depreciation	3,189	-	167	507	3,863
Additions	8,986	7,144	-	-	16,130
Transfer from mine development expenditure	-	626	-	-	626
Depreciation charge for the year	-	-	(21)	(79)	(100)
At 31 December 2014 net of accumulated depreciation	12,175	7,770	146	428	20,519

At 31 December 2014

Cost	12,175	7,770	260	748	20,953
Accumulated depreciation	-	-	(114)	(320)	(434)
Net carrying amount	12,175	7,770	146	428	20,519

	Land \$'000	Work in Progress \$'000	Site Plant & Equipment \$'000	Office Equipment \$'000	Total \$'000
At 1 July 2013 net of accumulated depreciation	3,189	-	207	603	3,999
Additions	-	-	51	58	109
Disposal	-	-	(43)	-	(43)
Depreciation charge for the year	-	-	(48)	(154)	(202)
At 30 June 2014 net of accumulated depreciation	3,189	-	167	507	3,863
At 30 June 2014					
Cost	3,189	-	260	748	4,197
Accumulated depreciation	-	-	(93)	(241)	(334)
Net carrying amount	3,189	-	167	507	3,863

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

NOTE 5: OTHER FINANCIAL LIABILITIES

	31 Dec '14 \$'000	30 Jun '14 \$'000
Current		
Other financial liabilities	560	1,000
Cash flow hedges (i)	820	-
Embedded derivatives (ii)	9,231	-
	<u>10,611</u>	<u>1,000</u>
Non-current		
Other financial liabilities	1,500	480
Cash flow hedges (i)	394	-
	<u>1,894</u>	<u>480</u>

(i) Cash flow hedges

During the half-year ended 31 December 2014, the Group entered into cash flow hedges of forecast loan drawdowns and future sales in US dollars. In addition, the Group entered into a cash flow hedge of the variability in the amount of 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 arises requiring recognition through profit or loss. A net unrealised loss of \$1.214m relating to the valuation of the hedging instruments at 31 December 2014 was included in other comprehensive income.

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

Sell USD Forwards	Notional amounts US\$		Weighted average A\$:US\$ exchange rate		Fair Value	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
0 - 3 months	24,733	-	0.8221	-	388	-
3 - 6 months	25,267	-	0.8182	-	432	-
1 - 2 years	12,360	-	0.8081	-	292	-
	<u>62,360</u>	<u>-</u>	<u>0.8177</u>	<u>-</u>	<u>1,112</u>	<u>-</u>

The interest rate swap agreement entered into for a notional amount of US\$33.782m 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 fair value of the interest rate swap in place at 31 December 2014 is \$0.102m.

(ii) Embedded derivatives

During the half-year ended 31 December 2014, the Group entered into a facility agreement with Resource Capital Fund VI L.P. ("RCF"). Included within the facility agreement are a conversion price option on the Convertible Loan facility and option to convert the Bridge Finance facilities to a new convertible loan. Refer to note 6 for the terms and conditions of the RCF facilities.

At execution of the facility agreement, the fair value of the embedded derivatives associated with the facilities was \$11.078m.

At 31 December 2014, the fair value of the embedded derivative associated with the facilities was \$9.231m.

Fair value

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

NOTE 5: OTHER FINANCIAL LIABILITIES (Continued)

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.

The following table presents the Group's financial liabilities measured and recognised at fair value at 31 December 2014 on a recurring basis:

2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities				
Foreign currency hedging contracts	-	1,112	-	1,112
Embedded derivative associated with Convertible Loan	-	8,498	-	8,498
Embedded derivative associated with Bridge Finance facilities		733	-	733
Interest rate swap	-	102	-	102

Valuation techniques used to derive level 2 and level 3 fair values

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 rates and interest rates at the balance sheet date; and
- Other techniques, such as Black Scholes and Monte Carlo valuation models.

The fair value of the embedded derivatives associated with the Convertible Loan facility and Bridge Finance facility are valued using a Black Scholes option pricing model that takes into account the exercise price, term of the facilities, non-tradeable nature of the facilities, the share price at drawdown date and expected share price volatility of the underlying share, the expected dividend yield, the risk-free rate for the term of the facilities.

The table below summarises the model inputs for the embedded derivatives as at 31 December 2014.

	Convertible Loan facility	Bridge Finance facility
Dividend yield	0.00%	0.00%
Expected volatility of Company's shares	100.00%	100.00%
Risk-free rate	2.21%	1.86%
Term remaining (years)	4.40	4.43
Conversion price (cents)	0.40	0.43
Underlying security spot price at valuation date (cents)	0.23	0.23
Valuation date	31 Dec 2014	31 Dec 2014
Black Scholes valuation per share (cents)	0.1461	0.159

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

NOTE 6: BORROWINGS

	31 Dec '14 \$'000	30 Jun '14 \$'000
Current		
Bank loan (i)	-	725
Insurance premium funding	-	69
Other party loan (ii)	-	3,940
Major shareholder settlement (iii)	-	1,000
	-	5,734
Non-current		
Other party settlement	557	69
Bank loan (i)	725	-
Other party loan (iv)	6,506	-
Bridge facility (v)	14,182	-
Convertible loan (v)	15,010	-
	36,980	69

(i) Bank loan

On 12 November 2014, the Company entered into an agreement with National Australia Bank to extend the repayment date of the flexible interest rate bank loan facility to 30 November 2019. The loan is interest only to 31 October 2016 with principal repayments commencing thereafter for a period of 36 months. The current interest rate is 6.97% per annum.

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

(ii) Other party loan

This loan was repaid on 5 December 2014.

(iii) Major shareholder settlement

Settlement occurred on 9 December 2014.

(iv) Other party loan

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

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

(v) Bridge facility and convertible loan

On 12 November 2014, the Group entered into a Facility Agreement with Resource Capital Fund VI L.P. ("RCF"). These facilities comprise a US\$21.0m Convertible Loan facility and US\$33.5m in Bridge Finance facilities. The key terms are as follows:

Convertible Loan facility

- Interest at 10% per annum, payable quarterly in arrears, in either cash or shares at the Group's election;
- Final repayment date of 26 May 2019; and
- Convertible at RCF's election any time before the final repayment date on a conversion formula.

Bridge Finance facilities

- Interest at 10% per annum, payable quarterly in arrears, in either cash or shares at the Group's election;
- Repayable within 1 year of draw down or automatically converted to a convertible loan facility; and
- The convertible loan facility has a final repayment date of 5 June 2020 and is convertible at RCF's election at any time before the final repayment date on a conversion formula.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

NOTE 6: BORROWINGS (Continued)

As at 31 December 2014, the Convertible Loan facility was fully drawn and US\$13.0m of the US\$33.5m Bridge Finance facilities were drawn.

A reconciliation of the Convertible Loan facility and Bridge Finance facilities at inception is as follows:

	Inception \$'000
Embedded derivatives	11,078
Bridge facility	14,521
Convertible loan	15,132
Proceeds	<u>40,731</u>

(vi) Senior facility

On 12 November 2014, the Group entered into a Senior Facility Agreement with RMB Resources Limited ("RMB"). These facilities comprise a US\$37.5m Senior Debt facility, a US\$3.0m Working Capital Debt facility and a \$11.5m Bank Guarantee facility. The key terms are as follows:

Senior Debt facility

- Interest at a margin of 4.75% per annum above the US\$ LIBOR rate pre Keysbrook Project completion and a margin of 4.25% post Keysbrook Project completion, payable quarterly in arrears;
- Repayments are required quarterly on fixed repayment profile;
- A mandatory prepayment of the principal outstanding at each quarter end of 70% of free cash is required until the Senior Debt facility is reduced to zero; and
- Terminates on 30 September 2019.

Working Capital Debt facility

- Interest at a margin of 4.00% per annum above the US\$ LIBOR rate, payable quarterly in arrears;
- Available from the commencement of mining ore and production of heavy mineral concentrate from the wet concentrator plant at Keysbrook;
- Revolving facility repayable on the second quarter end after first drawdown and able to be drawn down on the next business day following the second quarter end; and
- Terminates on 30 September 2019.

Bank Guarantee facility

- Fee payable at 3.00% per annum on the value drawn down, payable quarterly in arrears;
- Available for the West Australian Environmental Protection Agency approvals, landowner agreements and the Western Power connection agreement; and
- Terminates on 30 September 2019.

As at 31 December 2014, no draw down has occurred under the Senior Debt or Working Capital Debt facilities. As at 31 December 2014, \$0.774m was drawn down under the Bank Guarantee facility.

(vii) Security on RMB and RCF facilities

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

- Fixed and floating charge over all the Group's assets other than Lot 112 Westcott Road, Keysbrook WA and Lot 62 Hopeland Road, North Dandalup WA;
- Mortgage granted by the Company over Lot 202 Elliot Road, Keysbrook WA; and
- 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 \$64.133m.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

NOTE 6: BORROWINGS (Continued)

(viii) Compliance with RCF and RMB loan covenants

A Common Terms Agreement governs the RMB and RCF facilities and includes financial covenants that the Group must comply with. All such financial covenants have been complied with in accordance with the Common Terms Agreement.

(ix) Financial liabilities carried at amortised cost

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

NOTE 7: SHARE CAPITAL

The comparative information in relation to ordinary shares has been restated for the forty to one share consolidation, completed in December 2014.

	31 Dec '14 \$'000	30 Jun '14 \$'000
76,041,700 (2014: 69,664,970) ordinary fully paid shares	66,124	63,715
	No. of Shares	\$'000
Issued shares:		
At 1 July 2013	42,545,030	46,413
Share placements	13,563,960	7,044
Share purchase plan	5,787,040	3,000
Shares issued pursuant to a Deed of Settlement	1,967,944	5,000
Shares issued pursuant to an Employee Share Trust Plan	3,134,600	1,505
Shares issued pursuant to a Facility Agreement	2,666,396	1,183
Share issue costs	-	(430)
As at 30 June 2014	69,664,970	63,715
At 1 July 2014	69,664,970	63,715
Shares issued pursuant to a Facility Agreement	2,466,516	691
Shares issued pursuant to a Facility Agreement	3,910,011	1,743
Options exercised	203	-
Share issue costs	-	(25)
As at 31 December 2014	76,041,700	66,124
Unissued shares:		
At 1 July 2013	7,754,982	8,000
Share placement	(7,754,982)	(8,000)
As at 30 June 2014	-	-
Total share capital 30 June 2014	69,664,970	63,715
Total share capital 31 December 2014	76,041,700	66,124

Share consolidation

The Company completed a forty to one share consolidation in December 2014, following approval by shareholders in November 2014. The share consolidation involved the conversion of every forty fully paid ordinary shares on issue into one fully paid ordinary share. Where the share consolidation resulted in a shareholder having a fractional entitlement to a share, the entitlement was rounded up to the next whole number of shares. Upon the completion of the share consolidation on 9 December 2014, the number shares on issue reduced from 2,885,242,323 shares to 72,131,486 shares as at that date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

NOTE 8: SHARE-BASED PAYMENTS

Options issued

The Company granted 775,000 options with an exercise price of \$0.34 to Resource Capital Fund VI L.P. as part of the Facility Agreement terms with RCF for payment of acceptance fees. There are no voting rights attached to the options and they may be exercised at any time on or before 19 November 2017.

The fair value of these options is \$0.153m.

The fair value of the options is measured at grant date using the Black-Scholes option valuation model 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. The following table lists the inputs to the valuation model for options issued during the half-year:

	Series 12
Dividend yield	0.00%
Expected volatility	100.00%
Risk-free rate	2.57%
Expected life of options (years)	3.00
Exercise price (cents)	0.34
Grant date share price (cents)	0.32
Grant date	19 Nov 2014
Expiry date	19 Nov 2017
Number	775,000
Fair value at grant date (cents)	0.1974

The number of options, grant price and exercise price in the above table has been restated for the forty to one share consolidation.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns 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.

NOTE 9: STATEMENT OF CASH FLOW

The following non-cash financing activities occurred during the half-year ended 31 December 2014.

On 19 November 2014, 775,000 unlisted options were issued at an exercise price of \$0.34 as part of Facility Agreement terms with Resource Capital Fund VI L.P. ("RCF") for payment of acceptance fees.

On 11 December 2014, 2,209,182 fully paid ordinary shares were issued at \$0.5492 as part of Facility Agreement terms with RCF for payment of establishment fees.

On 11 December 2014, 1,700,829 fully paid ordinary shares were issued at \$0.3116 as part of Facility Agreement terms with RCF for payment of establishment fees.

NOTE 10: CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities or contingent assets as at 31 December 2014.

NOTE 11: SUBSEQUENT EVENTS

On 8 January 2015, the Company issued 2,167,130 fully paid ordinary shares at a share price of \$0.2338 in satisfaction of interest and commitment fees for the quarter ending 31 December 2014 pursuant to the terms of the Facility Agreement with Resource Capital Fund VI L.P.

On 16 February 2015, the Company issued 822,280 fully paid ordinary shares for nil consideration in respect of performance rights granted under the employee incentive plan.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

NOTE 12: OPERATING SEGMENTS

31 Dec '14	Tiwi Island Projects \$'000	Keysbrook Project \$'000	Unallocated Corporate / Other \$'000	Consolidated \$'000
Other revenue	-	-	20	20
Other income	-	4,314	-	4,314
Finance expenses	(106)	(1,749)	(681)	(2,536)
Segment results	(287)	2,936	(4,535)	(1,886)
Segment assets	2,107	63,678	9,159	74,944
Segment liabilities	877	37,704	17,317	55,898

31 Dec '13	Tiwi Island Projects \$'000	Keysbrook Project \$'000	Unallocated Corporate / Other \$'000	Consolidated \$'000
Other revenue	-	-	20	20
Other income	505	-	-	505
Finance expenses	(77)	(227)	(64)	(368)
Segment results	(614)	(227)	(4,256)	(5,098)
Segment assets	3,109	24,016	5,132	32,257
Segment liabilities	2,497	3,004	6,741	12,242

NOTE 13: CAPITAL COMMITMENTS

The Group had \$69.913m in capital commitments due within one year as at 31 December 2014 in relation to the construction and development of the Keysbrook Project.

DECLARATION BY DIRECTORS

In the Directors' opinion:

1. the financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with 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 31 December 2014 and of its performance for the half-year ended on that date; and
2. at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

A handwritten signature in dark ink, appearing to read 'Malcolm Randall', with a small horizontal line at the end.

Malcolm Randall
Chairman

06 March 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of MZI Resources Limited

Report on the Condensed 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 2014, 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, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the 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 Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 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 the company, 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*.

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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



HLB Mann Judd
Chartered Accountants



D I Buckley
Partner

Perth, Western Australia
6 March 2015