mzi resources

and its controlled entities

ABN 52 077 221 722

ANNUAL FINANCIAL REPORT
For the year ended 30 June 2016

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Corporate Directory

Board of Directors

Rodney Baxter	Independent Non-Executive Chairman
Trevor Matthews	Managing Director
Malcolm Randall	Independent Non-Executive Director
Chi To (Nathan) Wong	Non-Independent Non-Executive Director
Stephen Ward	Independent Non-Executive Director
Maree Arnason	Independent Non-Executive Director
Ronald Beevor	Non-Independent Non-Executive Director

Company Secretary

John Traicos

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Share Registry

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Telephone:	+61 8 9323 2000
Website:	www.computershare.com.au

Auditors

PricewaterhouseCoopers

Securities Exchange Listing

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

The Directors present their report on the Consolidated Entity comprising MZI Resources Ltd (the "Company" or "MZI") and its controlled entities ("the Group") for the financial year ended 30 June 2016.

1 Directors

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

Rodney Baxter *	Independent Non-Executive Chairman	
Trevor Matthews	Managing Director	
Malcolm Randall **	Independent Non-Executive Director	
Chi To (Nathan) Wong	Non-Independent Non-Executive Director	
Stephen Ward	Independent Non-Executive Director	
Maree Arnason	Independent Non-Executive Director	
Ronald Beevor	Non-Independent Non-Executive Director	Appointed 15 April 2016

* Mr Rodney Baxter was appointed Non-Executive Chairman on 22 August 2016 and was a Non-Executive Director for whole of the financial year and up to 22 August 2016.

** Mr Malcolm Randall resigned as Non-Executive Chairman on 22 August 2016 and remains as a Non-Executive Director up to the date of this report.

2 Company Secretaries

The following person held the position of Company Secretary during the whole of the financial year and up to the date of this report:

- John Traicos

3 Directors & Officers

Rodney Baxter	Independent Non-Executive Chairman
Qualifications:	B. Sc. (Hons.), PhD, MBA, MAICD
Experience:	Mr Baxter has 25 years operational and executive leadership experience in the resources and engineering services sectors. He was most recently the Managing Director of engineering, asset management and construction services company, Calibre Group.
Interest in Shares and Options at the date of this report:	75,000 ordinary shares 300,000 unlisted options ($0.65, 1 December 2019)
Special responsibilities:	Chairman of the Audit and Risk Committee.
Directorships held in other listed entities in the last three years:	In the last three years, Mr Baxter was a Director of Calibre Group Limited (resigned 17 June 2013).

Trevor Matthews	**Managing Director**
Qualifications:	B. Com., Dip. Applied Finance and Investment, MAICD
Experience:	Mr Matthews has 30 years' experience in the resources industry and has held executive positions with a number of listed entities in both operational and corporate roles including Managing Director and Executive Director. Mr Matthews has experience in various commodities and operations including iron ore, silicon metal, copper, gold, nickel and cobalt and significant experience in greenfields project development, operational management, finance and corporate governance.
Interest in Shares and Options at the date of this report:	1,126,414 ordinary shares 300,000 unlisted options ($0.65, 1 December 2019)
Special responsibilities:	Member of the Nomination Committee.
Directorships held in other listed entities in the last three years:	Mr Matthews has not held Directorships in any other listed company in the last three years.
Malcolm Randall	**Independent Non-Executive Director**
Qualifications:	Dip. Applied Chem., FAICD
Experience:	Mr Randall is an experienced company Director and Chairman with extensive experience in corporate management and marketing in the resources sector, including more than 20 years with the Rio Tinto group of companies. His experience extends over a broad range of commodities including iron ore, diamonds, base metals, coal, uranium and industrial minerals both in Australia and internationally.
Interest in Shares and Options at the date of this report:	625,000 ordinary shares 125,000 unlisted options ($0.80, 27 June 2017) 500,000 unlisted options ($0.65, 1 December 2019)
Special responsibilities:	Member of the Remuneration Committee and Audit and Risk Committee.
Directorships held in other listed entities in the last three years:	Current Non-Executive Director of Thundelarra Exploration Ltd, Magnetite Mines Ltd and Summit Resources Ltd. In the last three years, Mr Randall was previously a Director of Iron Ore Holdings Limited (resigned 21 November 2014).
Stephen Ward	**Independent Non-Executive Director**
Qualifications:	B. Sci. (Hons Chemistry), PhD Physical Chemistry, GAICD.
Experience:	Dr Ward has over 30 years' industry experience working globally in minerals sands and related products. He has an extensive mining and mineral processing background with a proven record in managing the critical transition from development to production.
Interest in Shares and Options at the date of this report:	215,000 ordinary shares 300,000 unlisted options ($0.65, 1 December 2019)
Special responsibilities:	Chairman of the Remuneration Committee and member of the Nomination Committee.
Directorships held in other listed entities in the last three years:	In the last three years, Dr Ward was previously a Director of Mindax Ltd (left 31 May 2014).

Maree Arnason	Independent Non-Executive Director
Qualifications:	B. Arts, GAICD
Experience:	Ms Arnason is an experienced director and senior executive whose career has spanned 30 years in the resources, energy and manufacturing sectors and has significant leadership expertise working in complex corporate and project environments with a focus on risk and reputation. She is a CEDA WA State Advisory Council member; a Co-Founder/Director of Energy Access Services, who operate an energy trading platform for the WA domestic gas market; a past National Director of the Australian China Business Council and a serving member of their WA Executive Committee. She also serves on the Juniper aged-care services Board and is a member of the WA Museum Foundation Board of Governors' Endowment Taskforce.
Interest in Shares and Options at the date of this report:	125,000 ordinary shares 300,000 unlisted options ($0.65, 1 December 2019)
Special responsibilities:	Member of the Remuneration Committee and Audit and Risk Committee.
Directorships held in other listed entities in the last three years:	Current Non-Executive Director of Sandfire Resources NL.
Chi To (Nathan) Wong	**Non-Independent Non-Executive Director**
Qualifications:	B. Eng. (First Class Honours), M Sci.
Experience:	Mr Wong has extensive experience in the mineral sands value chain in China at both a technical and commercial level. He is a Director of Tricoastal Minerals (Holdings) Company Limited which manages one of the largest mineral separation capacities together with a comprehensive sales and marketing network throughout China. He brings additional depth of processing and marketing expertise to the Board.
Interest in Shares and Options at the date of this report:	2,870,602 ordinary shares 75,000 unlisted options ($0.80, 27 June 2017) 300,000 unlisted options ($0.65, 1 December 2019)
Directorships held in other listed entities in the last three years:	Mr Wong has not held Directorships in any other listed company in the last three years.
Ronald Beevor	**Non-Independent Non-Executive Director**
Qualifications:	B.A. (Hons)
Experience:	Mr Beevor has extensive experience in financial markets at an executive and director level. Previous roles included Managing Director and Head of Investment Banking with NM Rothschild Australia, and a number of non-executive director appointments. He brings strong corporate, resource financing and development expertise to the Board.
Interest in Shares and Options at the date of this report:	300,024 ordinary shares
Special Responsibilities:	Member of the Audit and Risk Committee.
Directorships held in other listed entities in the last three years:	Current Chairman of Bannerman Resources Limited and Non-Executive Director of Wolf Minerals Ltd. In the last three years, Mr Beevor was previously a Director of Unity Mining Limited (resigned 18 November 2015), EMED Mining Public Limited (resigned 24 December 2014), Bullabulling Gold Limited (resigned 4 August 2014) and Ampella Mining Limited (resigned 31 March 2014).

John Traicos	Company Secretary
Qualifications:	B.A. (Hons), BL, LLB
Experience:	Mr Traicos is a lawyer with more than 30 years' experience in legal and corporate affairs in Australia and Southern Africa. He has acted as a legal and commercial manager and Company Secretary to several Australian resource companies and has been involved in resource projects and acquisitions in Australia, Africa and Indonesia.

4 Directors' Meetings

The number of meetings of the Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

Member	Full Board	Remuneration Committee	Nomination Committee	Audit and Risk Committee
M Randall	17	10	3	6
CT Wong	17	-	-	-
T Matthews	17	-	3	-
S Ward	17	11	3	-
R Baxter	17	-	-	6
M Arnason	17	11	-	6
R Beevor*	4	-	-	-
Number of Meetings Held	**17**	**11**	**3**	**6**

*Mr Beevor was appointed to the Board of Directors on 15 April 2016 and attended all Board of Director meetings since appointment date.

The details of the functions of the committees of the Board of Directors are presented in the Corporate Governance Statement.

5 Principal Activities

The principal activities of the Group during the financial year were mineral sands development, production and exploration.

6 Significant Changes in State of Affairs

During the year ended 30 June 2016, the Group commenced production at its Keysbrook operations.

7 Operating and Financial Review

7.1 Operating Result

The net loss applicable to owners of the Parent after income tax amounted to the following:

Consolidated	
30 Jun 16 $'000	30 Jun 15 $'000
(24,412)	(16,646)

7.2 Review of Operations

The following significant achievements occurred during the year:

- Construction of the Keysbrook Project was completed and operations commenced ahead of schedule and within budget;
- First saleable zircon and leucoxene was produced at the Picton Mineral Separation Plant ("MSP");
- First shipments of leucoxene and zircon concentrate products;
- US$37.5m RMB Senior Debt Facility restructured; and
- Capital structure significantly simplified through a $43m capital raising to repay the Resource Capital Fund VI L.P. Bridge facilities.

Keysbrook

The Company had no Lost Time Injuries during the 2015/16 financial year covering the completion of construction and the commissioning and ramp up of operations.

In readiness for operations, an extensive recruitment campaign focussed on local employment was undertaken followed by safety and technical training prior to the commencement of operations. The mining fleet was commissioned on site in August 2015 with initial mine development activities followed by ore mining in early October 2015. With the completion of construction of the Keysbrook Wet Concentration Plant ("WCP") and the MSP, ore was fed into the WCP to produce the first Heavy Mineral Concentrate ("HMC") in late October 2015. The Project was delivered ahead of schedule and within budget. Following the start of commissioning of the Group's processing annexe at the MSP, the first batch of saleable zircon concentrate and leucoxene was produced in early November 2015.

Commissioning of the WCP and the MSP was completed and practical completion granted to GR Engineering Services Limited in November 2015. Handover of the WCP and MSP occurred with the achievement of sustained operations at nameplate throughput in early December 2015.

Since commissioning and processing commenced in late 2015, the operational focus has been on improving heavy mineral recovery both at the WCP and the MSP and in achieving long term sustainable throughput rates and plant reliability.

The table below shows the key physical statistics from the Keysbrook operations for the year ended 30 June 2016.

		30 June 2016
Ore Mined	*Dry tonnes*	2,522,311
Ore Processed	*Dry tonnes*	2,385,321
HMC Production	*Dry tonnes*	58,289
HMC Processed - Picton	*Dry tonnes*	53,206
Zircon Concentrate Production	*Dry tonnes*	9,663
L70 Production	*Dry tonnes*	12,140
L88 Production	*Dry tonnes*	10,297

Mining continued according to plan during the second half of the year with a record of 1,017,474 tonnes mined during the June 2016 quarter. Optimisation activities are ongoing as part of the operational ramp-up in order to achieve targeted production rates. Plant upgrades to the WCP, costing approximately $2.3m, are scheduled to commence late in the September quarter to further improve performance. The upgrades comprise a new WCP screening unit and the addition of 48 large capacity spirals. The screening unit will increase the HMC grade and lift MSP recoveries. The additional spirals are expected to increase WCP heavy mineral recovery to design levels.

Leucoxene shipments to the Group's major North American customer commenced in March 2016 with 6,825 tonnes of Keysbrook L70 leucoxene shipped. The maiden shipment of 8,250 tonnes of Keysbrook L88 leucoxene occurred in June 2016 along with a further shipment of 7,000 tonnes of Keysbrook L70 leucoxene.

Zircon sales continued during the year, with a total of 9,300 tonnes of zircon concentrate shipped from the Port of Fremantle. Discussions with potential customers regarding future supply of L88 leucoxene into pigment and welding rod applications have continued. It is intended that some small shipments of Keysbrook L88 will be undertaken over the remainder of the year and subject to plant trial qualification, MZI expects to enter into commercial negotiations regarding offtake agreements.

The Group recently received notification from its major leucoxene customer of a substantial increase in the customer's titanium dioxide feedstock requirements and has received a request for an upward revision of the shipping schedule for the remainder of this calendar year. As a result of this revision, and other sales opportunities, the Group expects all production to be fully sold in 2016.

Tiwi Islands

The removal of remaining infrastructure at the Lethbridge operations has been completed. This included the removal of the camp facility which was donated to the Tiwi College. The College is using the camp facility to develop additional accommodation quarters for the Tiwi College staff.

A review of the rehabilitation progress and activities was conducted during the period, with revegetation works to date successfully establishing stable platforms upon which vegetation diversity and density will be built in the coming years.

Exploration

The global resource for the Keysbrook Project area increased 68% to 155 million tonnes ("Mt") in August 2015. The mineral assemblage of the expanded resource remains leucoxene and zircon with no lower grade ilmenite. The Mineral Resource Estimate for Keysbrook was increased 11.4Mt to 90.3Mt. A new deposit, Yangedi, was identified in a location west of Keysbrook with an additional 51.1Mt of Inferred Mineral Resource.

As a result of the upgrade to the resource inventory at Keysbrook and identification of a different mineralised horizon at Yangedi, Exploration Licences over an extensive area were applied for in the southern Perth Basin by the Group during the period, to allow exploration for similar-styled deposits.

A project to compile historic data for the newly acquired leases in the southern Perth Basin was completed, with initial assessment of the data revealing areas of potential deposits similar to Keysbrook.

Aircore drilling commenced at Keysbrook in March 2016 focussed on the 18- to 24-month grade control program. The drilling program was expanded to cover a broader area for grade control in addition to the incremental resource expansion drilling undertaken to the north and south of the current resource footprint. A total of 1,395 holes were drilled for 6,321 metres. Analyses continue to be received, with compositing for metallurgical analysis, geological interpretation and resource estimation to commence in Q1, 2017.

Corporate

During the first half of the year, the Company completed a share placement raising $43m ("Placement") to repay the Resource Capital Fund VI L.P. ("RCF") Bridge facilities and provide working capital. The Placement comprised the issue of 106,837,381 ordinary fully paid shares in the Company at an issue price of $0.40 to sophisticated investors and clients of Argonaut Securities Ltd and Bell Potter Securities Ltd and to the Company's major shareholder, RCF.

The Placement consisted of 3 tranches of shares, with Tranche 1 comprising the issue of 8,723,203 shares completed on 27 October 2015 and Tranche 2, comprising the issue of 66,985,621 shares completed following approval by shareholders at the Company's AGM in November 2015. Tranche 3, which comprised 31,128,557 shares issued to RCF was completed on 24 February 2016.

The first two tranches of the Placement provided MZI with total proceeds of $22m, of which $5m was reserved for working capital and the remainder was committed to the repayment of the RCF Bridge facilities. The outstanding US$8.7m was repaid following shareholder approval of Tranche 3 of the Placement in late February 2016.

In June 2016, the Company successfully restructured the US$37.5m Senior Debt Facility provided by RMB Australia Holdings Limited on improved terms that will provide the Company with greater financial flexibility through reduced fixed quarterly repayment obligations and increased access to surplus cash flow.

The term of the restructured facility has been extended by 27 months to 31 December 2021, and includes a six-month deferral of the start of the Company's principal repayment obligations to 31 March 2017. In addition, quarterly principal repayments will be reduced to a flat US$1m for the first five quarters, US$2m for the following ten quarters, and US$2.5m thereafter. Previously, quarterly principal repayments averaged US$2.9m.

The revised facility also significantly reduces cash sweep provisions applying to surplus cash flow generated by the Keysbrook Mineral Sands Project after all quarterly costs and scheduled debt repayments have been met. MZI will now have access to 50% of surplus cash flow generated per quarter, with the remainder reserved for early debt retirement. Previously 70% of any quarterly surplus cash flow generated was applied to senior debt repayment.

The Debt Service Reserve amount will also be reduced to US$3m from US$4.5m and has been delayed for funding by six months to December 2016.

Interest will accrue at a margin of 5.85% per annum above the US LIBOR 3-month rate, pre-project completion and 5.35% per annum post project completion, an increase of 1.10%. Other key terms remain unchanged. The revised agreement is effective as of 29 June 2016.

Included in the Consolidated Financial Statements for the year ended 30 June 2016 is an independent auditor's report which includes an Emphasis of Matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. For further information, refer to Note 3 to the financial statements, together with the auditor's report.

7.3 Likely Developments and Business Strategies

The likely developments of the Group and the expected results of those developments in the coming financial year are as follows:

- Continued ramp up to design capacity at both the WCP and the MSP;
- Continued mineral sands exploration and assessment of other development opportunities in Keysbrook and the surrounding region; and
- Commencement of studies and other activities in relation to the potential expansion of production from the Keysbrook Project.

8 Events Subsequent to the end of the Reporting Period

On 6 July 2016, the Company issued 3,793,731 fully paid ordinary shares at an issue price of $0.2570 per share to RCF for payment of interest and commitment fees for the June 2016 quarter, associated with the Keysbrook finance facilities.

On 22 August 2016, the Company announced that Mr Rodney Baxter would succeed Mr Malcolm Randall as Chairman effective immediately. Mr Malcolm Randall will remain a Non-Executive Director until the Company's Annual General Meeting to be held in November 2016.

9 Environmental Regulations

The Group's operations are subject to various environmental laws and regulations under the relevant State, Territory or Commonwealth Government legislation in respect to its mining and mineral exploration activities within Australia. The Group is a party to various approvals and licences issued through legislation. Generally, these approvals and licences specify the environmental conditions applicable to exploration and mining operations in the respective jurisdictions. The Group regards full compliance with these conditions, laws and regulations as a minimum acceptable standard for all operations and activities to achieve.

Compliance with environmental law is monitored by the Board of Directors. There have been no material breaches by the Group of any environmental law during the financial year ended 30 June 2016.

10 Remuneration Report - Audited

This report sets out the remuneration arrangements in place for Directors and senior management of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. For the purposes of this report Key Management Personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Company.

10.1 Key Management Personnel Covered in this Report

The names and positions of the KMP of the Company and the Group during the financial year were:

Rodney Baxter *	Independent Non-Executive Chairman	Appointed 30 April 2015
Malcolm Randall **	Independent Non-Executive Director	
Chi To (Nathan) Wong	Non-Independent Non-Executive Director	
Stephen Ward	Independent Non-Executive Director	Appointed 1 March 2015
Maree Arnason	Independent Non-Executive Director	Appointed 22 May 2015
Ronald Beevor	Non-Independent Non-Executive Director	Appointed 15 April 2016
Trevor Matthews	Managing Director	
John Westdorp	Chief Financial Officer	Appointed 22 June 2015
Michael Ferraro	Chief Operating Officer	Appointed 8 April 2015
Jamie Wright	Chief Development Officer	Resigned 1 July 2016
Peter Gazzard	Technical Director	Retired 1 July 2016

* Mr Rodney Baxter was appointed Non-Executive Chairman on 22 August 2016 and was a Non-Executive Director for whole of the financial year and up to 22 August 2016.

** Mr Malcolm Randall resigned as Non-Executive Chairman on 22 August 2016 and remains as a Non-Executive Director up to the date of this report.

10.2 Remuneration Policy and Link to Performance

The Group's remuneration policy encompasses the total value Directors and executives receive as a result of their employment, including all forms of salary, short and long-term incentives and benefits (direct cash or otherwise). It is the belief of the Board of Directors that ensuring the employees of the Company are competitively remunerated is critical to the Group's success.

During the period, remuneration policies were reviewed and determined by the Board of Directors and were adapted to reflect competitive market and business conditions. Within this framework the Board of Directors and the Managing Director consider remuneration policies and practices and determine specific remuneration packages and other terms of employment. Remuneration and other terms of employment are reviewed annually by the Board of Directors and the Managing Director having regard to performance, relevant comparative information and independent expert advice. A Remuneration Committee was established on 23 June 2015 and is responsible for recommending remuneration policies and framework to the Board of Directors.

The Group's remuneration policy for its KMP is designed to promote superior performance and long-term commitment to the Group. Remuneration packages are set at levels that are intended to attract and retain KMP capable of managing the Group's operations. KMP receive a base remuneration which is assessed regularly against market data for similar roles.

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

- rewards reflect the competitive market in which the Group operates;
- individual rewards should be linked to performance criteria; and
- employees should be rewarded for both financial and non-financial performance.

10.3 Use of Remuneration Consultants

During the year the newly-formed Remuneration Committee sought advice from Mercer Consulting (Australia) Pty Ltd ("Mercer") regarding market data and advice in relation to senior management remuneration packages and incentive structures, Non-Executive Directors' fees and an overall remuneration framework consistent with the Company's transition from project developer to business operator. Such consultants are engaged by and report directly to the Remuneration Committee and are required to confirm, in writing, their independence from the Company's senior management and other executives. As a consequence, the Board of Directors is satisfied that the recommendations were made free from undue influence from any members of the Key Management Personnel.

The recommendations from Mercer were provided directly to the Remuneration Committee as an input to the decision making process, and the Remuneration Committee considered these recommendations, along with other factors, in making its remuneration decisions and recommendations to the Board of Directors. The fees paid to Mercer for this market data and advice were $16,750.

10.4 Non-Executive Directors' Remuneration

In accordance with current corporate governance practices, the structure for the remuneration of Non-Executive Directors and employees is separate and distinct. Shareholders approve the aggregate or total fees payable to Non-Executive Directors, with the current approved limit being $800,000 per annum (excluding share-based payments). The Board of Directors determines the actual payments to Directors, which are determined after considering advice from external advisors and with reference to fees paid to Non-Executive Directors of comparable companies.

The Board of Directors approves any consultancy arrangements for Non-Executive Directors who may provide services outside of and in addition to their duties as Non-Executive Directors. During the reporting period, no such consultancy agreements were enacted. Non-Executive Directors may be entitled to statutory superannuation benefits. Non-Executive Directors may be entitled to participate in equity-based remuneration schemes. Shareholders must approve the framework for any equity-based remuneration schemes and if a recommendation is made for a Director to participate in an equity scheme, that participation must be specifically approved by shareholders.

Shareholders approved the issue of options to Non-Executive Directors in November 2015, June 2014 and August 2012.

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

The tables below set out the board fees and fees Non-Executive Directors receive for chairing or participating on Board committees. These were established effective 1 July 2015 and will not be reviewed until early 2017.

	2016 $
Base fees	
Chair	120,000
Other non-executive directors	70,000
Additional fees	
Audit and Risk Committee - Chair	10,000
Audit and Risk Committee – member	5,000
Nomination Committee - Chair	10,000
Nomination Committee - member	5,000
Remuneration Committee - Chair	10,000
Remuneration Committee - member	5,000

2016	Board and committee fees $	Non-monetary benefits $	Superannuation $	Options $
Non-Executive Directors				
M Randall	140,000	1,808	13,300	117,200
CT Wong	73,325	-	-	70,320
S Ward	69,018	-	24,057	70,320
R Baxter	80,000	-	7,600	70,320
M Arnason	80,000	-	7,600	70,320
R Beevor	14,808	-	1,407	-
Total	**457,151**	**1,808**	**53,964**	**398,480**

2015	Board and committee fees $	Non-monetary benefits $	Superannuation $	Options $
Non-Executive Directors				
M Randall	90,000	-	10,685	-
CT Wong	70,000	-	-	-
S Ward	21,309	-	2,024	-
R Baxter	10,935	-	1,039	-
M Arnason	6,296	-	598	-
Total	**198,540**	**-**	**14,346**	**-**

Non-monetary benefits include, where applicable, the cost to the Company of providing fringe benefits and the fringe benefits tax on those benefits.

10.5 Managing Director and Executive Remuneration

Remuneration performance for Key Management Personnel is directly linked to share price performance for the long-term incentives ("LTI"), while other forms of remuneration including fixed salary and the short-term incentives ("STI") are linked to meeting individual and corporate performance objectives rather than share price performance.

The structure of remuneration packages for KMP comprises:

- a fixed base salary payable in cash;
- short-term incentives through eligibility to participate in equity plans and cash bonuses;
- long-term incentives through being eligible to participate in incentive plans, with any equity issues generally being made in accordance with plans approved by shareholders; and
- other benefits.

The Directors consider the principles of the remuneration policy have been successful in providing positive Company performance. The principles have provided the desired incentive and are expected to continue to provide such incentive.

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive by the Remuneration Committee and for the year ended 30 June 2016 was as follows:

Managing Director	Fixed remuneration (53%)	Target STI (21%) (40% of fixed)	Target LTI (26%) (50% of fixed)
Other Executives	Fixed remuneration (58%)	Target STI (21%) (35% of fixed)	Target LTI (21%) (35% of fixed)

The elements of remuneration are described below.

Fixed annual remuneration (FR)

KMP may receive their fixed remuneration as cash, or cash with non-monetary benefits such as parking, and superannuation.

Fixed remuneration is reviewed annually, or on promotion. It is benchmarked against market data for comparable roles in companies in a similar industry, market capitalisation and business model. The Remuneration Policy aims to position executives competitively in the market, with flexibility to take into account capability, experience, value to the organisation and performance of the individual. Based on this data and the weaker prevailing economic conditions, a decision was taken to freeze salaries during a review in early January 2016.

Short term incentives (STI)

The STI is an annual “at risk” component of remuneration for KMP. It is payable based on performance against key performance indicators (KPIs) set at the beginning of the financial year and includes a company financial performance gateway and capacity to pay determination. STI are structured to remunerate KMP for achieving annual Company targets and individual performance targets. The net amount of any STI after allowing for applicable taxation, is payable in cash and/or shares.

KPIs require the achievement of strategic, operational or financial measures and in most cases are linked to the drivers of business performance. For each KPI there are defined “threshold”, “target” and “stretch” measures which are capable of objective assessment. “Target” is the planned objective outcome, “threshold” is the minimum acceptable level of performance outcome and “stretch” is set to challenge the business and individuals. “Threshold” and “stretch” can be in a range up to +/- 10% of “target”. A “target” performance delivers a STI equal to 35-40% of fixed remuneration, depending on executive level.

The Remuneration Committee is responsible for recommending to the Board of Directors the STI gateways and KPIs for each KMP and then later assessing the extent to which the KPIs have been achieved, and the amount to be paid to each KMP. To assist in making this assessment, the Remuneration Committee receives detailed reports and presentations on the performance of the business from the Managing Director, Company Secretary and independent remuneration consultants.

The Group’s STI measures include:

- Improved safety performance measured by outcomes of safety audits, hazard identification response timeliness and Total Recordable Injury Frequency Rate compared to prior year; and
- Achievement of defined targets such as final saleable product, cash operating costs and earnings before interest, tax, depreciation and amortisation (“EBITDA”).

These measures have been selected as they can be reliably measured, are key drivers of value for shareholders and encourage behaviours in line with the Company’s core values. The individual performance measures vary according to the individual KMP’s position, and reflect value accretive and/or risk mitigation achievements for the benefit of the Company within each KMP’s respective areas of responsibility.

The Remuneration Committee considers what the STIP payments should be and makes recommendations to the Board for the Board to approve. Payments are delivered as equity and/or cash.

Long term incentives (LTI)

At the Board of Directors discretion, KMP participate in a LTI program comprising the annual grant of units in a share trust where one unit equates to one MZI share. The LTI dollar value that KMP are entitled to receive is set at a fixed percentage equating to 35-50% of fixed remuneration.

Performance objectives have been selected that reward KMP for creating shareholder value as determined via the increase in the Company’s share price over a 2.5-year period. The LTI performance conditions are measured as follows:

- 50% of the LTI units in the share trust will be assessed for vesting based upon the Company’s relative share price performance versus the ASX 300 Index per the scale below.
  - Below -10% of index performance – nil vesting;
  - From -10% to 0% of index performance – vests at a rate of 2.5% of units in the share trust for each 1% movement;
  - From 0% to 25% above index performance – vests at 3% of units in the share trust for each 1% movement; and
  - From 25% to 50% above index performance - vests at 4% of units for each 1% movement.
- 50% of the LTI units in the share trust will be assessed for vesting based on the compound annual growth rate (“CAGR”) achieved in the price of the Company’s shares from 1 January 2016 to 30 June 2018 per the scale below.
  - From 0% to 10% - vests at 3% of units in the share trust for each 1% of CAGR; and
  - Above 10% - vests at 7% of units in the share trust for each 1% of CAGR.

In both cases, no award will be granted unless the Company’s share price at the vesting date of 30 June 2018 exceeds the share price as at 1 January 2016. Outperformance over the assessment period can result in a maximum award of 200% of target award. In addition, shares may not be disposed of by the KMP within 12 months of the vesting date.

10.6 Details of Remuneration

The following tables disclose details of the nature and amount of each element of the remuneration for the Managing Director and other KMP of MZI and the Group for the year ended 30 June 2016.

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

	Short-term benefits			Post-employment benefits	Share-based payments		
2016	Salary $	Non-monetary benefits $	Short term incentive $	Super-annuation $	Options $	Rights over shares $	Performance related %
Executive Director							
T Matthews	464,535	5,934	23,951	37,275	70,320	492,351	51%
Other KMP							
J Wright	323,415	5,472	25,469	33,144	46,880	315,397	48%
J Westdorp	349,007	4,558	-	33,156	46,880	336,459	50%
M Ferraro	360,043	5,761	-	34,204	46,880	367,302	51%
P Gazzard	244,753	3,887	18,647	32,992	-	61,253	17%
Total	1,741,753	25,612	68,067	170,771	210,960	1,572,762	-

The short term incentives for the year ended 30 June 2015 were paid on 1 December 2015 in cash. The Board of Directors has determined that no award will be made under the 2016 program.

	Short-term benefits		Post- employment benefits		Share-based payments	
2015	Salary & fees $	Non-monetary benefits $	Super-annuation $	Long service leave $	Rights over shares $	Performance related %
Executive Director						
T Matthews	452,272	6,665	34,999	-	389,949	44%
Other KMP						
J Wright	319,707	6,308	30,372	-	160,992	31%
J Westdorp	-	-	-	-	-	n/a
M Ferraro	83,409	-	8,209	-	-	0%
P Gazzard	312,437	6,308	29,682	-	160,123	31%
K Vuleta	300,049	6,308	24,594	41,544	141,512	36%
Total	1,467,874	25,589	127,856	41,544	852,576	-

Non-monetary benefits include, where applicable, the cost to the Company of providing fringe benefits and the fringe benefits tax on those benefits.

10.7 Shareholdings of Key Management Personnel

Details of shareholdings of Key Management Personnel are as follows:

2016	Balance at the start of the year	Received on vesting of rights over shares	Net change - other	Balance at the end of the year
Executive Director				
T Matthews (i)	926,079	700,335	(500,000)	1,126,414
Non-Executive Directors				
M Randall (ii)	500,000	-	125,000	625,000
CT Wong	2,870,602	-	-	2,870,602
S Ward (ii)	90,000	-	125,000	215,000
R Baxter (ii)	-	-	75,000	75,000
M Arnason (ii)	-	-	125,000	125,000
R Beevor (iii)	-	-	300,024	300,024
Other KMP				
M Ferraro	-	241,677	-	241,677
J Westdorp	4,750	193,906	-	198,656
P Gazzard	646,244	351,414	-	997,658
J Wright	357,940	387,514	-	745,454

(i) Disposal of shares to a family member in an off market transfer.

(ii) Participation in a share placement as approved by shareholders on 24 November 2015.

(iii) Initial director's interest.

2015	Balance at the start of the year	Received on vesting of rights over shares	Net change - other (i)	Balance at the end of the year
Executive Director				
T Matthews	-	767,079	159,000	926,079
Non-Executive Directors				
M Randall	181,250	-	318,750	500,000
CT Wong	2,870,602	-	-	2,870,602
S Ward	-	-	90,000	90,000
R Baxter	-	-	-	-
M Arnason	-	-	-	-
Other KMP				
M Ferraro	-	-	-	-
J Westdorp	-	-	4,750	4,750
P Gazzard	238,697	407,547	-	646,244
J Wright	-	357,940	-	357,940
K Vuleta (ii)	78,935	457,547	(536,482)	-

(i) Net change other refers to shares purchased on market.

(ii) Refers to Mr Vuleta's resignation on 7 April 2015.

10.8 Share-Based Payments

Directors, employees and consultants may be eligible to participate in equity-based compensation schemes.

The primary purpose of the schemes is to increase motivation, promote retention and align the interests of Directors, employees and consultants with those of the Company and its shareholders and to reward contribution to the growth of the Company.

Employee Share Option Plan

Under the terms and conditions of the Plan, each option gives the holder the right to subscribe for one fully paid ordinary share. Any option not exercised before the expiry date will lapse on the expiry date.

Options have been valued using the Black-Scholes option valuation method. The following table lists the inputs to the model for options outstanding during the period:

	Series 6	Series 7	Series 10	Series 13
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%
Expected volatility (%)	80.00%	80.00%	99.40%	99.70%
Risk-free interest rate (%)	4.50%	4.50%	2.70%	2.21%
Expected life of options (years)	4.132	3.633	3.000	4.000
Exercise price (cents)	300.0	160.0	80.0	65.0
Grant date share price (cents)	80.0	80.0	36.0	38.5
Grant Date	27 Apr 12	31 Aug 12	27 Jun 14	1 Dec 15
Expiry Date	30 Jun 16	31 Dec 15	27 Jun 17	1 Dec 19
Number	125,000	500,000	200,000	2,800,000
Fair value at grant date	$0.2800	$0.3480	$0.1680	$0.2344

There are no participating rights or entitlements inherent in the options and the holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. All shares allotted upon the exercise of options will rank pari passu in all respects with other shares.

Employee Share Trust Plan

Under the terms and conditions of the Plan, each unit in the Employee Share Trust gives the holder the right to one fully paid ordinary share for nil consideration provided the relevant incentive plan criteria has been met. Any unit not exercised before the nominated expiry date will lapse on the expiry date. These units have been valued by using the prevailing market price at the date of issue less the present value of any expected dividends that will not be received on the units over the vesting period.

There are no participating rights or entitlements inherent in the units and the unitholders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the units. All shares allotted upon the exercise of the unit will rank pari passu in all respects with other shares.

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

2016	Opening balance			Vested		Exercised	Forfeited		Closing balance	
Name and grant dates	Vested and exercisable	Unvested	Granted as compensation	No.	%	No.	No.	%	Vested and exercisable	Unvested
T Matthews										
1 Dec 2015	-	-	300,000	-	-	-	-	-	-	300,000
27 Apr 2012 (i)	125,000	-	-	-	-	-	(125,000)	100%	-	-
M Randall										
1 Dec 2015	-	-	500,000	-	-	-	-	-	-	500,000
27 Jun 2014	125,000	-	-	-	-	-	-	-	125,000	
31 Aug 2012 (ii)	125,000	-	-	-	-	-	(125,000)	100%	-	-
CT Wong										
1 Dec 2015	-	-	300,000	-	-	-	-	-	-	300,000
27 Jun 2014	75,000	-	-	-	-	-	-	-	75,000	
31 Aug 2012 (ii)	125,000	-	-	-	-	-	(125,000)	100%	-	-
S Ward										
1 Dec 2015	-	-	300,000	-	-	-	-	-	-	300,000
R Baxter										
1 Dec 2015	-	-	300,000	-	-	-	-	-	-	300,000
M Arnason										
1 Dec 2015	-	-	300,000	-	-	-	-	-	-	300,000
M Ferraro										
1 Dec 2015	-	-	200,000	-	-	-	-	-	-	200,000
J Westdorp										
1 Dec 2015	-	-	200,000	-	-	-	-	-	-	200,000
J Wright										
1 Dec 2015	-	-	200,000	-	-	-	-	-	-	200,000
P Gazzard										
31 Aug 2012 (ii)	125,000	-	-	-	-	-	(125,000)	100%	-	-

(i) Expired on 30 June 2016.

(ii) Expired on 31 December 2015.

2015	Opening balance			Vested		Exercised	Forfeited		Closing balance	
Name and grant dates	Vested and exercisable	Unvested	Granted as compensation	No.	%	No.	No.	%	Vested and exercisable	Unvested
T Matthews										
27 Apr 2012 (i)	125,000	-	-	-	-	-	(125,000)	100%	-	-
27 Apr 2012	125,000	-	-	-	-	-	-	-	125,000	-
M Randall										
27 Jun 2014	125,000	-	-	-	-	-	-	-	125,000	
31 Aug 2012	125,000	-	-	-	-	-	-	-	125,000	-
CT Wong										
27 Jun 2014	75,000	-	-	-	-	-	-	-	75,000	
31 Aug 2012	125,000	-	-	-	-	-	-	-	125,000	-
P Gazzard										
31 Aug 2012	125,000	-	-	-	-	-	-	-	125,000	-
K Vuleta										
31 Aug 2012	125,000	-	-	-	-	-	-	-	125,000	-

(i) Expired on 30 June 2015.

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

2016 Name and grant dates	Opening balance - Unvested No.	Granted No.	Issue price $	Vested No.	 %	Forfeited No.	 %	Closing balance - Unvested No.	Maximum value yet to vest $
T Matthews									
24 Feb 2016	-	494,185	0.41	-	-	-	-	494,185	202,616
24 Feb 2016	-	555,416	0.38	-	-	-	-	555,416	211,058
1 Dec 2015	-	191,896	0.41	191,896	100%	-	-	-	-
25 Feb 2014	508,439	-	-	508,439	100%	-	-	-	-
M Ferraro									
24 Feb 2016	-	337,964	0.41	-	-	-	-	337,964	138,565
24 Feb 2016	-	303,871	0.38	-	-	-	-	303,871	115,471
1 Dec 2015	-	202,552	0.48	202,552	100%	-	-	-	-
1 Dec 2015	-	39,125	0.41	39,125	100%	-	-	-	-
J Westdorp									
24 Feb 2016	-	323,793	0.41	-	-	-	-	323,793	132,755
24 Feb 2016	-	291,129	0.38	-	-	-	-	291,129	110,629
1 Dec 2015	-	193,906	0.48	193,906	100%	-	-	-	-
P Gazzard									
1 Dec 2015	-	149,397	0.41	149,397	100%	-	-	-	-
25 Feb 2014	202,017	-	-	202,017	100%	-	-	-	-
J Wright									
24 Feb 2016	-	308,290	0.41	-	-	-	-	308,290	126,399
24 Feb 2016	-	277,190	0.38	-	-	-	-	277,190	105,332
1 Dec 2015	-	204,062	0.41	204,062	100%	-	-	-	-
25 Feb 2014	183,452	-		183,452	100%	-	-	-	-

2015 Name and grant dates	Opening balance - Unvested No.	Granted No.	Issue price $	Vested No.	 %	Forfeited No.	 %	Closing balance - Unvested No.	Maximum value yet to vest $
T Matthews									
9 Dec 2014	-	258,641	0.25	258,641	100%	-	-	-	-
25 Feb 2014	1,016,878	-	-	508,439	50%	-	-	508,439	244,050
P Gazzard									
9 Dec 2014	-	205,530	0.25	205,530	100%	-	-	-	-
27 Jun 2014	404,036	-	-	202,017	50%	-	-	202,017	72,726
J Wright									
9 Dec 2014	-	174,487	0.25	174,487	100%	-	-	-	-
25 Feb 2014	366,904	-	-	183,453	50%	-	-	183,453	88,058
K Vuleta									
9 Dec 2014	-	205,530	0.25	205,530	100%	-	-	-	-
27 Jun 2014 (i)	404,036	-	-	252,018	62%	152,018	38%	-	-

(i) Share rights forfeited refers to Mr Vuleta's resignation on 7 April 2015.

10.9 Terms of Employment

The terms of employment for the Managing Director and specified senior management are formalised in service agreements. Major provisions of the agreements relating to duration and termination as at 30 June 2016 are set out below:

Name	Base salary	Notice period Company	Notice period Employee	Termination provision
T Matthews	$456,201 pa	Effective immediately for breach of contract or 6 months	3 months	Accrued leave entitlements
J Westdorp	$340,000 pa	6 months	1 month for breach of contract or 3 months	Accrued leave entitlements
M Ferraro	$355,160 pa	6 months	1 month for breach of contract or 3 months	Accrued leave entitlements

10.10 Other Transactions with KMP and Their Related Parties

Tricoastal Minerals (Holdings) Company Limited ("Tricoastal") is a company in which Mr CT Wong has a beneficial interest.

During the year ended 30 June 2016, the Group entered into a Variation to the Settlement Deed with Tricoastal which allowed the Group to defer the repayment date of its US$456,747 debt to Tricoastal from 31 March 2016 to no later than 30 September 2016. All other terms remain unchanged.

During the year ended 30 June 2016, the Company sold zircon concentrate product from its Keysbrook project to Tricoastal US$3.794m. 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 and Commitment Fees of US$3.463m (2015: US$3.113m). At 30 June 2016, an amount of $0.019m (2015: $0.018m) was owed to RCF.

In addition, an amount of US$25.500m was repaid and an amount of US$8.000m was drawn down in relation to Bridge Finance Facilities during the year ended 30 June 2016.

End of Audited Remuneration Report.

11 Options Granted Over Unissued Shares

At the date of this report, 8,012,500 ordinary fully paid shares, which are subject to options, were unissued. The terms of these options are as follows:

	Number
exercisable at $0.64 each on or before 5 December 2016	1,250,000
exercisable at $0.6592 each on or before 2 July 2017	1,987,500
exercisable at $0.80 each on or before 27 June 2017	200,000
exercisable at $0.34 each on or before 19 November 2017	775,000
exercisable at $0.65 each on or before 1 December 2019	2,800,000
exercisable at $0.50 each on or before 1 December 2019	1,000,000
Total	8,012,500

12 Non Audit Services

Non-audit services were provided by the entity's auditor, PricewaterhouseCoopers. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporation Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. The value of non-audit services for the year ended 30 June 2016 was $28,973.

13 Indemnification and Insurance of Directors and Officers

The Company has taken out an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim bought by a third party against the Company or its current or former Directors or Officers and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as a Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The Company indemnifies each of the Directors and Officers of the Company. Under its Constitution, the Company will indemnify those Directors or Officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities as Directors or Officers of the Company or any related entities.

14 Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors PricewaterhouseCoopers, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify PricewaterhouseCoopers during or since the financial year.

15 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 Class Order 2016/191. The Company is an entity to which this class order applies.

16 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 24 of this financial report.

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

T Matthews

Managing Director

Perth, Western Australia

29 September 2016

Auditor's Independence Declaration

As lead auditor for the audit of MZI Resources Ltd for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
29 September 2016

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
As at 30 June 2016

	Note	2016 $'000	2015 $'000
Continuing Operations			
Revenue from sales	5	17,346	-
Costs of production	5	(10,693)	-
		6,653	-
Depreciation and amortisation	5	(8,277)	(203)
Other operating costs relating to sales	5	(7,889)	(686)
Gross Loss		(9,513)	(889)
Other revenue	5	24	74
Other income	5	272	4,316
Corporate expenses	5	(6,251)	(6,273)
Other expenses	5	(2,455)	(391)
Loss on foreign exchange	5	(9,752)	(6,770)
Fair value movements on financial instrument derivatives	5	13,874	(1,417)
Loss before Finance and Tax		(13,801)	(11,350)
Finance expenses	5	(10,611)	(5,296)
Loss before Tax		(24,412)	(16,646)
Tax expense		-	-
Loss after Tax from Continuing Operations		(24,412)	(16,646)
Attributable to:			
Equity holders of the parent		(24,412)	(16,646)
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		(592)	(1,453)
Total Comprehensive Loss for the Year		**(25,004)**	**(18,099)**
Attributable to:			
Equity holders of the parent		(25,004)	(18,099)
Basic and diluted loss per share (cents per share)		(0.17)	(0.22)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Note	2016 $'000	2015 $'000
Current Assets			
Cash and cash equivalents	**7(a)**	2,500	33,790
Trade and other receivables	**7(b)**	10,710	27
Inventories	**8(a)**	4,227	66
Other current assets	**7(d)**	922	549
Other financial assets	**7(c)**	265	3,519
Total Current Assets		18,624	37,951
Non-Current Assets			
Trade and other receivables	**7(b)**	682	653
Property, plant and equipment	**8(b)**	86,411	59,638
Exploration and evaluation expenditure	**8(c)**	615	1,639
Mine development expenditure	**8(d)**	42,352	34,878
Total Non-Current Assets		130,060	96,808
Total Assets		148,684	134,759
Current Liabilities			
Trade and other payables	**7(e)**	6,487	6,256
Provisions	**8(e)**	1,227	1,614
Other financial liabilities	**7(f)**	3,077	17,480
Borrowings	**7(g)**	11,803	1,098
Total Current Liabilities		22,594	26,448
Non-Current Liabilities			
Provisions	**8(e)**	6,028	2,329
Other financial liabilities	**7(f)**	329	1,898
Borrowings	**7(g)**	93,062	99,476
Total Non-Current Liabilities		99,419	103,703
Total Liabilities		122,013	130,151
Net Assets		26,671	4,608
Equity			
Share capital	**9(a)**	114,041	66,604
Reserves		(341)	621
Accumulated losses		(87,029)	(62,617)
Total Equity		26,671	4,608

The accompanying notes form part of these financial statements.

	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 2014	63,715	-	(1,394)	1,211	918	(45,971)	18,479
Loss for the year	-	-	-	-	-	(16,646)	(16,646)
Other comprehensive income	-	(1,453)	-	-	-	-	(1,453)
Total Comprehensive Loss for the Year	-	(1,453)	-	-	-	(16,646)	(18,099)
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	2,889	-	-	-	-	-	2,889
Options issued	-	-	-	-	134	-	134
Recognition of share-based payments	-	-	854	351	-	-	1,205
Balance at 30 June 2015	66,604	(1,453)	(540)	1,562	1,052	(62,617)	4,608
Loss for the year						(24,412)	(24,412)
Other comprehensive income	-	(592)	-	-	-	-	(592)
Total Comprehensive Loss for the Year	-	(592)	-	-	-	(24,412)	(25,004)
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	47,437	-	-	-	-	-	47,437
Recognition of share-based payments	-	-	(1,106)	736	-	-	(370)
Balance at 30 June 2016	114,041	(2,045)	(1,646)	2,298	1,052	(87,029)	26,671

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Cash Flows from Operating Activities			
Receipts from customers		8,103	-
Interest received		301	197
Payments to suppliers and employees (inclusive of GST)		(22,354)	(8,235)
Finance costs		(5,275)	(7,161)
Net Cash Flows from Operating Activities	**10**	(19,225)	(15,199)
Cash Flows from Investing Activities			
Receipt of security deposits		2	60
Receipt of Research and Development Incentive Program refund		1,166	1,963
Receipt from sale of royalty		-	4,210
Receipt of Export Development Grants		-	104
Proceeds from sale of property, plant and equipment		1	-
Payments for exploration and evaluation		(821)	(338)
Payments for security deposits		(30)	-
Payments for mine development		(5,483)	(8,423)
Payments for property, plant and equipment		(37,090)	(43,793)
Net Cash Flows from Investing Activities		(42,255)	(46,217)
Cash Flows from Financing Activities			
Proceeds from issue of shares and other securities		22,004	134
Share issue costs		(1,870)	(52)
Proceeds from borrowings		31,425	106,123
Repayment of borrowings		(21,029)	(8,795)
Borrowing costs		-	(3,310)
Net Cash Flows from Financing Activities		30,530	94,100
Net (decrease)/increase in cash and cash equivalents		(30,950)	32,684
Cash and cash equivalents at the beginning of the year		33,790	1,106
Effect of exchange rate fluctuations on cash held		(340)	-
Cash and Cash Equivalents at the End of the Year	**7(a)**	2,500	33,790

The accompanying notes form part of these financial statements.

Contents of the Notes to the Financial Statements

Unrecognised items

Other information

BASIS OF PREPARATION

This section of the financial report sets out the Group's (being MZI Resources Ltd and its controlled entities) accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

The notes include information which is required to understand the financial statements and is material and relevant to the operations and the financial position and performance of the Group.

Information is considered relevant and material if:

- The amount is significant due to its size or nature;
- The amount is important in understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group's business; or
- It relates to an aspect of the Group's operations that is important to its future performance.

Note 1: Corporate Information

The consolidated financial report of MZI Resources Ltd for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 28 September 2016. The Board of Directors has the power to amend the Consolidated Financial Statements after issue.

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

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

The amounts contained in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) pursuant to the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which this class order applies.

Note 2: Reporting Entity

The financial statements are for the Group consisting of MZI Resources Ltd and its subsidiaries. A list of the Group's subsidiaries is provided in Note 14.

Note 3: Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements of MZI Resources Ltd also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities which are required to be measured at fair value.

(a) Going Concern

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

The Group held cash and cash equivalents as balance date of $2.500m and had a working capital deficit, inclusive of provisions and financial instruments, of $3.970m. For the year ended 30 June 2016, the Group incurred a loss after tax of $24.412m and had net assets of $26.671m. Cash flows from operations and investment activities were negative $61.480m which is attributable to the development of the Keysbrook Project.

The Group has prepared a cash flow forecast for the life of the Keysbrook Project. The forecast at the Keysbrook Project subsidiary level is based on assumptions relating to heavy mineral prices, meeting budgeted production output, and achieving predicted operating costs and sales volumes. The Group forecast demonstrates the need for additional funding to provide the necessary working capital for the Company to continue to provide corporate services to the Group and pursue its corporate and strategic objectives, including the progression of expansion plans for the Keysbrook Project and the investigation of business development opportunities.

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

Notwithstanding these matters, the Directors believe that the Group will be able to secure funding sufficient to meet the requirements to continue as a going concern due to the Group successfully raising capital in the past and is confident that the market will support a future capital raising.

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

(b) Basis of Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(c) Foreign Currency Translation

(i) Functional and presentation currency

Both the functional and presentation currency of MZI is Australian Dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that currency.

(ii) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at balance date.

All translation differences relating to transactions and balances denominated in foreign currency are taken to the Consolidated Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

(d) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

HOW NUMBERS ARE CALCULATED

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the entity.

Note 4: Segment Reporting

(a) Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the projects of the Group. Discrete financial information about each of these operating businesses is reported to the Board of Directors on a monthly basis.

(b) Description of projects

(i) Tiwi Island Projects

This project consists of all the Group's projects located on the Tiwi Islands in the Northern Territory, including Lethbridge South, Lethbridge West and Kilimiraka.

(ii) Keysbrook Project

This project consists of the Keysbrook Project, located in the south-west of Western Australia.

(iii) Unallocated items

Part of the following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- corporate expenses; and
- share-based payment expense.

(c) Accounting policies and inter-segment transactions

Inter-segment revenues are eliminated upon consolidation and reflected in the adjustments and eliminations column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believes would be inconsistent.

2016	Tiwi Island Projects $'000	Keysbrook Project $'000	Unallocated Corporate / Other $'000	Consolidated $'000
Segment revenue - external	-	17,346	-	17,346
Other revenue	-	4	20	24
Other income	-	-	272	272
Production Costs	-	(10,693)	-	(10,693)
Depreciation and amortisation	-	(8,277)	(213)	(8,490)
Other operating costs	(658)	(7,231)	-	(7,889)
Corporate expenses	-	(41)	(5,997)	(6,038)
Other expenses	(2,405)	(50)	-	(2,455)
Loss on foreign exchange	-	(8,376)	(1,376)	(9,752)
Fair value movements on financial instrument derivatives	-	16,469	(2,595)	13,874
Finance expenses	-	(7,739)	(2,872)	(10,611)
Segment results	(3,063)	(8,588)	(12,761)	(24,412)
Tax (expense)/benefit				-
Net loss after tax				(24,412)
Share-based payments	-	580	813	1,393
Segment assets	534	144,900	3,250	148,684
Segment liabilities	1,194	118,724	2,095	122,013
Capital expenditure	-	35,657	181	35,838

2015	Tiwi Island Projects $'000	Keysbrook Project $'000	Corporate / Other $'000	Consolidated $'000
Segment revenue - external	-	-	-	-
Other revenue	-	1	73	74
Other income	-	4,212	104	4,316
Depreciation and amortisation	(52)	-	(151)	(203)
Other operating costs	(180)	(506)	-	(686)
Corporate expenses	-	(409)	(5,864)	(6,273)
Other expenses	(141)	(169)	(81)	(391)
Loss on foreign exchange	-	(4,543)	(2,227)	(6,770)
Fair value movements on financial instrument derivatives	-	(5,106)	3,689	(1,417)
Finance expenses	-	(3,038)	(2,258)	(5,296)
Segment results	(373)	(9,558)	(6,715)	(16,646)
Tax (expense)/benefit				-
Net loss after tax				(16,646)
Share-based payments	-	-	1,050	1,050
Segment assets	2,144	122,792	9,823	134,759
Segment liabilities	1,654	117,848	10,649	130,151
Capital expenditure	-	63,286	26	63,312

Note 5: Revenue and Expenses

	30 Jun 16 $'000	30 Jun 15 $'000
Sales revenue		
Leucoxene and zircon sales	17,346	-
Costs of production		
Production	9,898	-
Shipping	795	-
	10,693	-
Depreciation and amortisation		
Depreciation	4,735	203
Amortisation	3,542	-
	8,277	203
Other operating costs relating to sales		
Care and maintenance	-	180
Royalties and landowner payments	178	506
Operational support costs	7,711	-
	7,889	686
Other revenue		
Interest income	24	74
	24	74
Other income		
Sundry income	272	104
Royalty income	-	4,212
	272	4,316
Corporate expenses		
Audit and review fees	130	94
Consulting fees	426	770
Travel and accommodation	99	148
Occupancy costs	356	340
Share-based payments - employee benefits	813	1,050
Salaries and wages	3,145	2,783
Depreciation of non mine assets	213	203
Other	596	686
Directors' fees	473	199
	6,251	6,273
Other expenses		
Rehabilitation - non operating minesites	616	141
Loss on sale of assets	1	-
Impairment of exploration and evaluation	1,838	250
	2,455	391
Loss on foreign exchange		
Net loss on foreign exchange	9,752	6,770
	9,752	6,770
Fair value movements on financial instrument derivatives		
Fair value movement on derivatives	13,874	(628)
Realised loss on currency hedges	-	(789)
	13,874	(1,417)
Finance expenses		
Interest and fees on borrowings	10,611	5,296

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Interest

Revenue is recognised as the interest accrues using the effective interest rate method (which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(b) Revenue

Revenue from the sale of product is recognised when the product is suitable for delivery, has been despatched to the customer and is no longer under the physical control of the Group. This is the bill of lading date.

Note 6: Income Tax

The prima facie income tax expense on pre-tax accounting losses from continuing operations reconciles to the income tax expense in the financial statements as follows:

	30 Jun 16 $'000	30 Jun 15 $'000
Loss before income tax	(24,412)	(16,646)
Income tax benefit calculated at 30%	(7,324)	(4,994)
Tax effect of:		
Non-deductible expenses	1,922	556
Non-deductible interest	1,064	-
Non-deductible share-based payments	939	42
Exploration expenditure write offs	551	70
Deferred tax assets not recognised	2,848	4,326
Income tax benefit attributable to loss before tax	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

Deferred tax assets comprise:

	30 Jun 16 $'000	30 Jun 15 $'000
Tax losses carried forward	5,470	4,777
Provision for site restoration	1,834	1,009
Employee provisions	322	174
Depreciable assets	-	2
Accrued expenses	99	46
Borrowing costs	1,543	1,658
Unrealised gains/losses	-	2,134
Share issue/business related costs	583	109
Unrealised loss in Other Comprehensive Income	615	436
	10,466	10,345
Set off of deferred tax liabilities	(10,466)	(7,366)
Net deferred tax assets	-	2,979

Unused tax losses for which no deferred tax asset has been recognised is $4,963m.

Deferred tax liabilities comprise:

	30 Jun 16 $'000	30 Jun 15 $'000
Convertible loan	1,774	-
Unearned interest income	-	1
Prepayments	17	39
Capitalised exploration costs	184	492
Depreciable assets	1,370	-
Mining assets	7,036	5,244
Capital work in progress	-	1,428
Treasury shares	85	162
	10,466	7,366

(a) Tax consolidation

MZI and its wholly owned Australian controlled entities implemented the tax consolidated legislation on 1 July 2013. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement, which limits the joint and several liability of the wholly owned entities in the case of default by the head entity, MZI Resources Ltd.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate MZI Resources Ltd (the head entity) for any current tax payable assumed and are compensated by MZI Resources Ltd for any current tax receivable. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities financial statements. The head entity and controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

(b) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences or losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the head entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Note 7: Financial Assets and Liabilities

(a) Cash and Cash Equivalents

	30 Jun 16 $'000	30 Jun 15 $'000
Cash at bank	2,500	33,790

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Cash in the Consolidated Statement of Financial Position comprise of cash at bank and in hand.

For the purposes of the Consolidated Statement of Cash Flows, cash includes cash on hand and in banks, as defined above (and money market investments readily convertible to cash on hand), net of outstanding bank overdrafts.

(b) Trade and Other Receivables

	30 Jun 16 $'000	30 Jun 15 $'000
Current		
Trade Receivables	10,247	-
Other Receivables	463	27
	10,710	27
Non-Current		
Security Deposits	682	653

Security deposits of $0.565m have been lodged with the Department of Mines and Energy, Northern Territory and are unsecured and accrue no interest (2015: $0.536m).

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

	30 Jun 16 $'000	30 Jun 15 $'000
0-30 days	10,710	27

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables, which generally have 30 to 90 day terms, are recognised and carried at original invoice amount less an allowance for uncollectible debts. An estimate of the allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. For the non-current receivables, the fair values are assumed to be their carrying amount.

(c) Other Financial Assets

	30 Jun 16 $'000	30 Jun 15 $'000
Other financial assets	265	3,519

Refer to Note 7(f) for details of embedded derivatives.

The Group classifies its financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement in the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial assets at initial recognition.

(d) Other Assets

	30 Jun 16 $'000	30 Jun 15 $'000
Prepayments	922	549

(e) Trade and Other Payables

	30 Jun 16 $'000	30 Jun 15 $'000
Trade payables	2,714	532
Other payables	3,773	5,724
	6,487	6,256

Trade creditors, accruals and sundry payables are non-interest bearing and are normally settled on 30 day terms.

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(f) Other Financial Liabilities

	30 Jun 16 $'000	30 Jun 15 $'000
Current		
Other financial liabilities (i)	910	470
Cash flow hedges (ii)	1,951	655
Embedded derivatives (iii)	216	16,355
	3,077	17,480
Non-Current		
Other financial liabilities (i)	235	1,100
Cash flow hedges (ii)	94	798
	329	1,898

(i) Other financial liabilities

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

(ii) Cash flow hedges

Derivative financial instruments are recorded at fair value on the Consolidated Statement of Financial Position and are classified based on contractual maturity. Derivative instruments are classified as either hedges of the fair value of recognised assets or liabilities or of firm commitments (“fair value hedges”), hedges of highly probable forecast transactions (“cash flow hedges”) or non-hedge derivatives. Derivatives designated as either a fair value or cash flow hedge that are expected to be highly effective in achieving offsetting changes in fair value or cash flows are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised in profit or loss. Amounts accumulated in equity are transferred to profit or loss in the period when the forecasted transaction impacts earnings. When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial carrying amount of the asset or liability.

When a derivative designated as a cash flow hedge expires or is sold and the forecast transaction is still expected to occur, any cumulative gain or loss relating to the derivative that is recorded in equity at that time remains in equity and is recognised in profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to profit or loss.

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

During the year ended 30 June 2016, 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 $1.412m (2015: $1.072m) relating to the valuation of the hedging instruments at 30 June 2016 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	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
1 - 2 years	36,750	20,498	0.7516	0.7871	(1,795)	(1,072)

The interest rate swap agreement entered into for a notional amount of US$22.886m allows the Group to receive a fixed rate of 1.39% and pays interest at a variable rate equal to the US dollar LIBOR BBA rate. The interest rate swap settles on a quarterly basis. The fair value of the interest rate swap in place at 30 June 2016 is $0.250m (2015: $0.381m).

(iii) Embedded derivatives – L88

During the year ended 30 June 2016, the leucoxene 88 (“L88”) offtake contract with a third party became active and as part of this contract there is a yearly price adjustment mechanism.

At inception of the contract, the fair value of the embedded derivative associated with the L88 contract was nil.

At 30 June 2016, the fair value of the embedded derivative associated with the L88 contract was $0.265m (2015: nil).

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 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.

(iv) Embedded derivatives - Finance Facilities

During the year ended 30 June 2016, the Group repaid US$25.5m of the Bridge Finance facilities. As a result the option to convert this portion of the Bridge Finance facilities has a fair value of zero. A fair value loss on the financial liability derivatives of $3.839m has been recognised in the Statement of Comprehensive Income to reflect this.

In addition, during the year ended 30 June 2016, the option associated with the Convertible Loan facility expired and as a result the option now has a fair value of nil. A fair value gain on the financial liability derivatives of $16.355m has been recognised in the Statement of Comprehensive Income.

A further US$8.000m in Bridge Finance facilities was drawn during the year ended 30 June 2016 pursuant to the facility agreement with Resource Capital Fund VI L.P. (“RCF”) executed in the year ended 30 June 2015. Included within the facility agreement is the same option to convert the Bridge Finance facilities to a new convertible loan. Refer to Note 7(g) for the terms and conditions of the RCF facilities.

At drawdown of the Bridge Finance facilities, the fair value of the embedded derivatives associated with the facilities was $0.678m (2015: 12.207m).

At 30 June 2016, the fair value of the embedded derivatives associated with the facilities was $0.216m (2015: $12.836m).

The fair value of the embedded derivatives associated with the Bridge Finance facilities are valued using a Monte Carlo 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 and the risk-free rate for the term of the facilities.

The table below summarises the model inputs for the Bridge Finance facilities embedded derivatives as at 30 June 2016.

	Finance Facility A	Finance Facility B
Dividend yield	0%	0%
Expected volatility of Company's shares	100%	100%
Risk-free rate	1.59%	1.59%
Term remaining (years)	3.93	4.00
Conversion price (cents)	$ 0.4277	$ 0.4277
Underlying security spot price at valuation date (cents)	0.245	0.245
Valuation date	30 Jun 16	30 Jun 16
Black-Scholes valuation per share	$ 0.1640	$ 0.1620

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

- Level 1 – the fair value is calculated using quoted prices in an active market.
- Level 2 – the fair value is estimated using inputs other than quoted prices included in the Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The following table represent the Group's financial instruments measured and recognised at fair value at 30 June 2016 on a recurring basis:

2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Embedded derivative associated with L88 Contract	-	-	265	265
Financial liabilities				
Foreign currency hedging contracts	-	1,795	-	1,795
Embedded derivative associated with Bridge Finance facilities	-	216	-	216
Interest rate swap	-	250	-	250

2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Embedded derivative associated with Bridge Finance facilities	-	3,519	-	3,519
Financial liabilities				
Foreign currency hedging contracts	-	1,072	-	1,072
Embedded derivative associated with Convertible Loan	-	16,355	-	16,355
Interest rate swap	-	381	-	381

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices for similar instruments;
- The fair value of the foreign currency forwards and interest rate swaps is determined using forward exchange rate and interest rates at the balance sheet date; and
- Other techniques, such as Black-Scholes and Monte Carlo valuation models.

(g) Loans and Borrowings

	30 Jun 16 $'000	30 Jun 15 $'000
Current		
Bank loan (i)	161	-
Insurance premium funding (iv)	332	320
Working capital facility (vii)	4,087	-
Hire purchase (iv)	3,265	33
Other party settlement (v)	615	595
Other party loan 1 (ii)	600	150
Other party loan 2 (iii)	50	-
Senior facility (vii)	2,693	-
	11,803	1,098
Non-Current		
Bank loan (i)	564	725
Other party loan 1 (ii)	5,760	6,378
Other party loan 2 (iii)	952	-
Bridge facility (vi)	10,181	29,905
Convertible loan (vi)	19,203	16,765
Senior facility (vii)	47,805	45,345
Hire purchase (iv)	8,597	358
	93,062	99,476

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(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 6.450% 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 1

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.

(iii) Other party loan 2

On 9 October 2015, the Group entered into an agreement with a third party to purchase Lot 104 Westcott Road, Keysbrook WA. The loan is repayable in fixed instalments, with a final repayment date of 30 June 2020. Interest is charged at 5.00% per annum.

The loan is secured by a mortgage granted over Lot 104 Westcott Road, Keysbrook WA. The carrying amount of assets pledged as security for this loan is $2.410m.

(iv) Hire purchase and insurance premium funding

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in short-term and long-term payables. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against Statement of Comprehensive Income.

Finance leased assets are depreciated on a straight line basis over the estimated useful life of the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

The Group entered into a hire purchase agreement with Komatsu Corporate Finance Pty Ltd ("Komatsu") for the financing of the mining feed unit which is being utilised at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires on 30 September 2019. MZI has provided an unsecured Parent entity guarantee to Komatsu in relation to this finance liability. The balance of the hire purchase liability at 30 June 2016 is $3.814m (2015: $0.390m).

The Group has entered into an additional hire purchase agreement with Komatsu for the purchase of the mining fleet and equipment which is being used at the Keysbrook Project. Monthly instalments are required under the terms of the contracts which expire between July 2018 and July 2020. MZI has provided an unsecured Parent entity guarantee to Komatsu in relation to this finance facility. The balance of the hire purchase liability at 30 June 2016 is $7.001m (2015: nil).

The Group has entered into a hire purchase agreement with Toyota Finance Australia Limited for the financing of vehicles for utilisation at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expire between July 2019 and July 2020. The balance of the hire purchase liability at 30 June 2016 is $0.405m (2015: nil).

The Group has entered into a hire purchase agreement with Fleetwood Pty Ltd for the financing of the site offices at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires on 30 June 2020. The balance of the hire purchase liability at 30 June 2016 is $0.306m (2015: nil).

The Group has entered into a hire purchase agreement with SNF Australia Pty Ltd for the financing of the flocculant plant at the Keysbrook Project. Monthly instalments are required under the terms of the contract which expires on 31 May 2021. The balance of the hire purchase liability at 30 June 2016 is $0.336m (2015: nil).

The Group has entered into a funding arrangement to fund the Group's insurance premiums. Monthly instalments are required under the terms of the contract which expires 31 January 2017. The balance of the premium funded liability at 30 June 2016 is $0.332m (2015: $0.320m).

Future minimum required payments under this funding arrangement as at 30 June are as follows:

	30 Jun 16 $'000	30 Jun 15 $'000
Not later than one year	4,162	384
Later than one year but not later than five years	9,168	390
Total minimum lease payments	13,330	774
Less finance charges	(1,136)	(63)
Present value of minimum lease payments	12,194	711

(v) Other party settlement

Amounts comprising this sales debt are unsecured and non-interest bearing. This amount is subject to a binding agreement which requires repayment at 5% of the value of each shipment of zircon concentrate produced from the Keysbrook Project and by no later than 30 September 2016.

Refer to Note 18(b) for related parties disclosure.

(vi) 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.

During the year ended 30 June 2016, the Group repaid US$25.500m of the Bridge Finance facilities, with the remaining US$8.000m being fully drawn.

As at 30 June 2016, the Convertible Loan facility, Debt Service Reserve Bridge facility and Cost Overrun Bridge facility were fully drawn.

Refer to Note 18(b) for related parties disclosure.

(vii) Senior facility and working capital

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.

On 29 June 2016, the Senior Facility Agreement was restructured with the following key terms:

Senior Debt facility

- Interest at a margin of 5.85% per annum above the US$ LIBOR 3-month rate pre Keysbrook Project completion and a margin of 5.35% 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 50% of free cash is required until the Senior Debt facility is reduced to zero; and
- Terminates on 31 December 2021.

Working Capital Debt facility

- Interest at a margin of 5.35% per annum above the US$ LIBOR 3-month 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;
- Terminates on 31 December 2021.

Contingent facility

- Fee payable at 3.00% per annum on the value of the facility utilised, payable quarterly in arrears;
- Available for the West Australian Environmental Protection Agency approvals, landowner agreements and the Western Power connection agreement if ever required; and
- Terminates on 31 December 2021.

As at 30 June 2016, the Senior Debt facility and Working Capital Debt facility were fully drawn and $4.551m was utilised under the Contingent facility.

(viii) 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 104 and 112 Westcott Road, Keysbrook WA and Lot 62 Hopeland Road, North Dandalup WA;
- Mortgage granted by the Company over Lot 202 Elliott Road, Keysbrook WA; 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 $141.155m.

(ix) 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.

(x) Financial liabilities carried at amortised cost

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

Note 8: Non-Financial Assets and Liabilities

(a) Inventories

	30 Jun 16 $'000	30 Jun 15 $'000
Heavy mineral concentrate and other intermediate stockpiles - at cost	1,385	-
Heavy mineral concentrate and other intermediate stockpiles - at NRV	1,827	-
Finished goods stockpiles - at NRV	462	66
Stores & consumables - at cost	553	-
	4,227	66

Inventories are stated at the lower of cost and net realisable value ("NRV"). Cost comprises direct materials, direct labour and a proportion of indirect overhead expenditure allocated on the basis of relevant operating capacity.

Costs are assigned to individual items of inventory on the basis of weighed average cost. Costs of purchased inventory are determined after deducting applicable rebates and discounts.

NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and to make the sale.

The NRV writedown for the year was $0.394m (2015: nil).

(b) Property, Plant and Equipment

	Land $'000	Site Plant & Equipment $'000	Office Equipment $'000	Plant & Equipment Under Lease $'000	Work in Progress $'000	Total $'000
At 1 July 2015 net of accumulated depreciation	12,175	106	373	391	46,593	59,638
Additions	2,709	-	181	13,228	15,604	31,722
Transfer between asset classes	-	61,523	-	-	(61,523)	-
Disposal	-	-	(1)	-	-	(1)
Depreciation charge for the year	-	(3,137)	(176)	(1,635)	-	(4,948)
At 30 June 2016 net of accumulated depreciation	14,884	58,492	377	11,984	674	86,411
At 30 June 2016						
Cost	14,884	61,765	954	13,619	674	91,896
Accumulated depreciation	-	(3,273)	(577)	(1,635)	-	(5,485)
Net carrying amount	14,884	58,492	377	11,984	674	86,411

	Land $'000	Site Plant & Equipment $'000	Office Equipment $'000	Plant & Equipment Under Lease $'000	Work in Progress $'000	Total $'000
At 1 July 2014 net of accumulated depreciation	3,189	167	507	-	-	3,863
Additions	8,986	1	25	391	45,967	55,370
Transfer between asset classes	-	-	-	-	626	626
Impairment	-	(18)	-	-	-	(18)
Depreciation charge for the year	-	(44)	(159)	-	-	(203)
At 30 June 2015 net of accumulated depreciation	12,175	106	373	391	46,593	59,638
At 30 June 2015						
Cost	12,175	242	774	391	46,593	60,175
Accumulated depreciation	-	(136)	(401)	-	-	(537)
Net carrying amount	12,175	106	373	391	46,593	59,638

Refer to Note 7(g) for details of assets held as security.

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment loss. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

Depreciation is provided on a straight line or units of production basis on all plant and equipment. Major depreciation periods are:

- Plant and equipment 1-12 years
- Motor vehicles 3-5 years

Land represents lots at Keysbrook which the Group has acquired.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised. No impairment loss has been recognised in relation to property, plant and equipment in the year ending 30 June 2016.

(c) Exploration & Evaluation Expenditure

	30 Jun 16 $'000	30 Jun 15 $'000
Opening balance	1,639	1,488
Exploration expenditure incurred	814	383
Impairment loss	(1,838)	(232)
Closing balance	615	1,639

The ultimate recoupment of costs carried forward for areas of interest in the exploration and evaluation phases is dependent upon the successful development and commercial exploitation, or sale, of the respective areas of interest. For areas which do not meet the criteria of the accounting policy below those amounts are charged to the Consolidated Statement of Comprehensive Income.

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Exploration and evaluation expenditure for each area of interest is written off as incurred, except that it may be carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration activities in the area of interest have not, at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Exploration and evaluation expenditure which no longer satisfies the above policy is written off. In addition, an impairment allowance is raised against any exploration expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable under the above policy. The increase in the impairment allowance is charged against the Consolidated Statement of Comprehensive Income for the year.

When an area of interest is abandoned, any expenditure carried forward in respect of that area of interest is written off in the year in which the decision to abandon is made.

Expenditure is not carried forward in respect of any area of interest unless the Group’s right of tenure to that area of interest are current.

During the year ended 30 June 2016, the carrying value of some tenements held in the Northern Territory were reviewed and assessed as non-recoverable under the Group’s policy. An amount of $1.838m has been recognised in the Statement of Comprehensive Income.

(d) Mine Development Expenditure

	30 Jun 16 $'000	**30 Jun 15 $'000**
Opening balance	34,878	24,141
Research and Development Incentive Program refund	(1,166)	(1,963)
Adjustments to rehabilitation and restoration provision	3,168	2,305
Capitalised borrowing costs	4,898	3,079
Additions	4,116	7,942
Amortisation	(3,542)	-
Transfer between asset classes	-	(626)
Closing Balance	42,352	34,878

Mine development expenditure represents the costs incurred in preparing mines for commissioning and production, and also includes other directly attributable costs incurred before production commences. These costs are capitalised to the extent they are expected to be recouped through successful exploitation of the related mining project. Once production commences, these costs are amortised over the estimated economic life of the mine on a units of production basis. The development costs are written off if the mine property is abandoned. Development costs incurred to maintain production are expensed as incurred against the related production.

Any rebate received for eligible Research and Development ("R&D") activities are offset against the area where the costs were initially incurred. For R&D expenditure that has been capitalised, any claim received will be offset against "Mine development expenditure" in the Consolidated Statement of Financial Position.

At each reporting date, the entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash generating unit.

(e) Provisions

	30 Jun 16 $'000	30 Jun 15 $'000
Current		
Annual leave	800	344
Long service leave	274	211
Payroll tax	67	-
Site restoration (i)	86	1,059
	1,227	1,614
Non-Current		
Long service leave	-	24
Site restoration (i)	6,028	2,305
	6,028	2,329

(i) Site restoration

	30 Jun 16 $'000	30 Jun 15 $'000
Opening balance	3,364	852
Rehabilitation and restoration provision accretion	62	-
Change in scope of restoration provision	3,785	2,512
Utilised during the year	(1,097)	-
Closing balance	6,114	3,364
	6,114	

The nature of restoration activities includes dismantling and removing plant structures, rehabilitating remaining mined areas including restoration, reclamation and revegetation of affected areas.

Typically the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. Additional disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

The Group is required to decommission and rehabilitate mines and processing sites, to the extent that an environmental disturbance has occurred, to a condition acceptable to the relevant authorities.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period.

The amount of the provision for future rehabilitation costs is capitalised and is depreciated in accordance with the policy set out in Note 8(e). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability (2016: 2.310%). The increase in the provision resulting from the passage of time is recognised in finance costs.

(ii) Employee entitlements

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave and long service leave and any other benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on high quality corporate bonds, which have terms to maturity approximating the terms of the related liabilities, are used.

Note 9: Equity

(a) Issued capital

Issued share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised, net of tax, directly in equity as a reduction of the share proceeds received.

Ordinary shares entitle the holder to participate in dividends in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll, each share is entitled to one vote.

Refer to Note 19 for details of the employee share schemes.

(i) Ordinary shares on issue

	30 Jun 16 $'000	30 Jun 15 $'000
203,841,970 (2015: 79,030,110) ordinary fully paid shares	114,041	66,604

(ii) Movements in ordinary share capital

	No. of Shares	$'000
Issued shares:		
At 1 July 2014	69,664,970	63,715
Shares issued pursuant to a Facility Agreement (i)	2,466,516	691
Shares issued pursuant to a Facility Agreement (ii)	3,910,011	1,743
Shares issued pursuant to a Facility Agreement (iii)	2,167,130	507
Shares issued in respect of Employee Performance Rights (iv)	821,280	-
Options exercised	203	-
Share issue costs	-	(52)
As at 30 June 2015	79,030,110	66,604
At 1 July 2015	79,030,110	66,604
Shares issued pursuant to a Facility Agreement (iii)	13,136,469	4,809
Share placement (iv)	8,723,203	3,489
Share placement (v)	66,985,621	26,794
Share placement (vi)	31,128,557	12,451
Shares issued pursuant to an Employee Share Trust Plan (vii)	4,388,826	1,764
Shares issued in respect of Employee Performance Rights (iv)	449,184	-
Share issue costs	-	(1,870)
	203,841,970	114,041

(i) Shares issued pursuant to a Facility Agreement as consideration for a loan repayment and fee;

(ii) Shares issued pursuant to a Facility Agreement as consideration for establishment fees;

(iii) Shares issued pursuant to a Facility Agreement as consideration for interest and commitment fees;

(iv) Shares issued pursuant to an Employee Incentive Plan, approved by shareholders at a general meeting on 12 November 2012;

(v) Share placement to sophisticated investors on 3 November 2015 and 1 December 2015;

(vi) Share placement to sophisticated investors on 24 February 2016; and

(vii) Shares issued pursuant to an Employee Share Trust Plan, approved by shareholders at a general meeting on 26 November 2013.

(b) Nature and purpose of reserves

The share-based payments reserve represents the value of equity benefits provided to Directors and employees as part of their remuneration and the value of services provided to the Group paid for by the issue of equity.

The employee share trust reserve consists of treasury shares held in trust for employees of the Group.

The cash flow hedge reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in Statement of Other Comprehensive Income, as described in Note 7. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

The option reserve consists represents the value of listed options previously issued by the Group.

Note 10: Cash Flow Information

Reconciliation of loss after income tax for the year to net cash flows from operations:

	30 Jun 16 '000	30 Jun 15 $'000
Loss after tax	(24,412)	(16,646)
Depreciation and amortisation	8,490	203
Foreign currency (gain)/loss	(4,182)	8,118
Non cash borrowing costs	3,310	(1,949)
Rehabilitation - non operating minesites	-	141
Impairment of non-current assets	1,838	250
Share-based payments	2,997	1,087
Sundry income	-	(4,314)
Sale of assets	1	-
Other	242	-
Changes in operating asset and liabilities:		
(Increase)/decrease in receivables	(8,669)	(67)
(Increase)/decrease in inventories	(4,160)	-
(Increase)/decrease in prepayments	(512)	(443)
Increase/(decrease) in trade and other payables	5,774	(1,667)
Increase/(decrease) in provisions	58	88
Net cash flows from operating activities	(19,225)	(15,199)

During the year ended 30 June 2016, the following non cash financing transactions occurred:

- On 6 October 2015, the Company issued 4,937,923 fully paid ordinary shares at an issue price of $0.3993 per share to RCF for payment of interest and commitment fees for the September 2015 quarter, associated with the Keysbrook finance facilities;
- On 1 December 2015, the Company issued 20,700,000 fully paid ordinary shares at an issue price $0.40 per share to RCF for partial repayment of the bridge finance facilities;
- On 8 December 2015, the Company issued 976,882 fully paid ordinary shares at an issue price of $0.4037 per share to RCF for satisfaction of interest due in respect of a bridge finance facility;
- On 7 January 2016, the Company issued 3,646,902 fully paid ordinary shares at an issue price of $0.3588 per share to RCF for payment of interest and commitment fees for the December 2015 quarter, associated with the Keysbrook finance facilities;
- On 24 February 2016, the Company issued 31,128,557 fully paid ordinary shares at an issue price $0.40 per share to RCF for full repayment of the bridge finance facilities;
- On 2 March 2016, the Company issued 586,195 fully paid ordinary shares at an issue price of $0.3090 per share to RCF for satisfaction of interest due in respect of a bridge finance facility; and
- On 7 April 2016, the Company issued 2,988,567 fully paid ordinary shares at an issue price of $0.3190 per share to RCF for payment of interest and commitment fees for the March 2016 quarter, associated with the Keysbrook finance facilities.

During the year ended 30 June 2015, the following non cash financing transactions occurred:

- On 15 September 2014, the Company issued 2,466,516 fully paid ordinary shares at an issue price of $0.28 per share to Resource Capital Fund VI L.P. (“RCF”) for repayment of a short-term loan facility and for payment of extension fees associated with the short-term loan facility;
- On 19 November 2014, the Company issued 775,000 options over ordinary shares at an exercise price of $0.34 per share for payment of establishment fees associated with the Keysbrook finance facilities;

- On 11 December 2014, the Company issued 2,209,182 and 1,709,829 fully paid ordinary shares at an issue price of $0.5492 per share and $0.3116 per share respectively for payment of establishment fees associated with the Keysbrook finance facilities; and
- On 8 January 2015, the Company issued 2,167,130 fully paid ordinary shares at an issue price of $0.2338 per share to RCF for payment of interest and commitment fees for the December 2014 quarter, associated with the Keysbrook finance facilities.

RISK

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

Note 11: Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future in applying its accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods affected.

(a) Impairment of property, plant and equipment

In accordance with the Group's accounting policy set out in Note 8, non-current assets are assessed for impairment when there is an indication that their carrying amount may not be recoverable. The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs of disposal estimated on the basis of discounted present value of the future cash flows (a level 3 fair value estimation method).

The estimates of discounted future cash flows for each CGU are based on significant assumptions including:

- estimates of the quantities of mineral reserves and ore resources for which there is a high degree of confidence of economic extraction and the timing of access to these reserves and ore resources;
- future production levels and the ability to sell that production;
- future product prices based on the Group's assessment of forecast short and long term prices for each of the key products;
- future exchange rates for the Australian dollar compared to the US dollar using external forecasts by recognised economic forecasters;
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure; and
- the asset specific discount rate applicable to the CGU.

(b) Impairment of exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related area of interest itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of reserves and resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if rights to tenure of the area of interest are current and activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

(c) Impairment of mine development expenditure

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved and probable reserves and measured, indicated and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

(d) Determination of mineral resources and ore reserves

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, and provision for decommissioning and restoration. The information in this report as it relates to ore reserves, mineral resources or mineralisation is reported in accordance with the AusIMM "Australian Code for Reporting of Identified Mineral Resources and Ore Reserves 2012". The information has been prepared by or under supervision of competent persons as identified by the Code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

(e) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined using the Black-Scholes valuation method, taking into account the terms and conditions upon which the instruments were granted. The related assumptions are detailed in Note 19. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next reporting period, but may affect expenses and equity.

(f) Rehabilitation and site restoration provision

Significant estimates and assumptions are made in determining the provision for rehabilitation of the mine as there are numerous factors that will affect the ultimate liability payable.

These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and changes in discount rates. These uncertainties may result in future actual expenditure differing from amounts currently provided.

(g) Fair value of financial derivative instruments

The Group assesses the fair value of its derivative instruments in accordance with the accounting policy stated at Note 7(f). When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, such as Monte Carlo simulations, Black-Scholes valuation models and discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include consideration of inputs such as market price volatility and foreign exchange volatility. Changes in these assumptions could affect the reported fair value of financial instruments. Refer note to 7(f) for the assumptions applicable to the Group's financial derivative instruments.

(h) Recovery of deferred tax assets

Judgement is required in determining whether deferred tax assets are recognised in the Consolidated Statement of Financial Position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise net deferred tax assets could be impacted. Additionally, future changes in tax laws could limit the ability of the Group to obtain tax deductions in future periods.

The Group has unrecognised deferred tax assets arising from tax losses and other temporary differences. The ability of the Group to utilise its tax losses is subject to meeting the relevant statutory tests.

The income tax expense has been estimated and calculated based on management's best knowledge of current income tax legislation. There may be differences with the treatment of individual jurisdiction provisions but these are not expected to have any material impact on the amounts as reported.

Note 12: Financial Risk Management

(a) Financial risk management objectives and policies

The Group's principal financial instruments comprise cash, receivables, payables, loans and hedging instruments.

The Group monitors and manages its exposure to key financial risks in accordance with the Group's financial management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. Primary responsibility for identification and control of financial risks, as identified below, is borne between the Board of Directors and senior management.

(b) Interest rate risk

The Group's exposure to market risk for changes in interest rates arise from variable interest rate exposure on cash, fixed deposits and interest bearing liabilities.

The Group's policy is to manage its exposure to interest rate risk by holding cash in short-term, fixed rate and variable rate deposits with reputable financial institutions. With interest bearing liabilities, consideration is also given to the potential renewal of existing positions, alternative financing and the mix of fixed and variable interest rates.

(i) Interest rate swaps

Under the Group's interest rate swap contract, the Group agrees to exchange the difference between floating and fixed rate interest amounts calculated on an agreed notional principal amount of the Senior Facility. The contract enables the Group to mitigate the risk of changing interest rates on the fair value of the issued floating rate Senior Facility and the cash flow exposures on the variable interest rate. The fair value of interest rate swap at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period. Refer to Note 7(f) for details of the Group's cash flow hedges.

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

2016	Floating interest rate $'000	Fixed interest rate maturing in: < 1 year $'000	1 to 5 years $'000	> 5 years $'000	Non-interest bearing $'000	Total $'000	Average interest rate: Floating %	Fixed %
Financial assets								
Cash and cash equivalents	2,500	-	-	-	-	2,500	1.3	-
Trade and other receivables	-	-	-	-	11,392	11,392	-	-
Other financial assets	-	-	-	-	265	265	-	-
Financial liabilities								
Trade and other payables	-	-	-	-	6,487	6,487	-	-
Other financial liabilities	-	910	235	-	2,261	3,406	-	4.5
Loans and borrowings	725	6,290	97,235	-	615	104,865	6.3	7.0

2015	Floating interest rate $'000	Fixed interest rate maturing in: < 1 year $'000	1 to 5 years $'000	> 5 years $'000	Non-interest bearing $'000	Total $'000	Average interest rate: Floating %	Fixed %
Financial assets								
Cash and cash equivalents	33,790	-	-	-	-	33,790	1.3	-
Trade and other receivables	-	-	-	-	680	680	-	-
Other financial assets	-	-	-	-	3,519	3,519	-	-
Financial liabilities								
Trade and other payables	-	-	-	-	6,256	6,256	-	-
Other financial liabilities	-	470	1,100	-	17,808	19,378	-	4.5
Loans and borrowings	725	353	98,751	-	595	100,424	6.3	7.8

At 30 June 2016, if interest rates had moved by the points shown below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	Post tax loss		Equity	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
+ 1% (100 basis points)	(3,853)	(2,529)	3,853	2,529
- 0.50% (50 basis points)	3,047	2,468	(3,047)	(2,468)

The movements in loss after income tax are due to higher/lower interest costs from fixed and variable rate debt and cash balances during the relevant year. Reasonably possible movements in interest rates were determined based on observations of historical movements in the past two years.

The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

(c) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of the instruments. Exposure at balance date is addressed in each applicable note.

The Group trades only with recognised, creditworthy third parties and as such, collateral is not requested nor is it the Group's policy to securitise its receivables. Receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

The credit quality of the Group's financial assets as at 30 June 2016 is as follows:

2016	Aaa $'000	Aa1 $'000	Aa2 $'000	Aa3 $'000	Ba3 $'000	Internally rated $'000	Total $'000
Financial assets							
Cash and cash equivalents	-	-	1	2,499	-	-	2,500
Trade and other receivables	464	534	117	-	10,247	30	11,392

2015	AA- $'000	Aa1 $'000	Internally rated $'000	Total $'000
Financial assets				
Cash and cash equivalents	33,789	-	1	33,790
Trade and other receivables	144	536	-	680
Other financial assets	-	-	3,519	3,519

The equivalent S&P and Moody's rating of the financial assets represents the rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.

Internally rated customers are customers with whom the Group has traded and have no history of default.

(d) Liquidity risk

The Group's objective is to ensure sufficient liquid funds are available to meet the Group's financial commitments in a timely and cost effective manner.

The Group's treasury function continually reviews the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Sensitivity analysis is conducted to ensure that the Group has the ability to meet commitments.

(i) Non-derivative financial liabilities

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as at 30 June. For the other obligations the respective undiscounted cash flows for the respective upcoming financial years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. However, where the counterparty has a choice when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Loan and borrowing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g., inventories and trade receivables). Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

2016	< 1 year $'000	1 to 5 years $'000	> 5 years $'000	Total $'000
Financial assets				
Cash and cash equivalents	2,500	-	-	2,500
Trade and other receivables	10,710	682	-	11,392
Financial liabilities				
Trade and other payables	(6,487)	-	-	(6,487)
Other financial liabilities	(3,077)	(329)	-	(3,406)
Loans and borrowings	(19,623)	(109,853)	-	(129,476)
Net inflow/(outflow)	(15,977)	(109,500)	-	(125,477)

2015	< 1 year $'000	1 to 5 years $'000	> 5 years $'000	Total $'000
Financial assets				
Cash and cash equivalents	33,790	-	-	33,790
Trade and other receivables	27	653	-	680
Other financial assets	3,519	-	-	3,519
Financial liabilities				
Trade and other payables	(6,256)	-	-	(6,256)
Other financial liabilities	(17,507)	(1,925)	-	(19,432)
Loans and borrowings	(8,031)	(134,690)	-	(142,721)
Net inflow/(outflow)	5,542	(135,962)	-	(130,420)

(e) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in US$. Foreign currency is monitored by the Board of Directors but there are currently no formal hedging policies in place.

At reporting date, the Group has the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	2016 A$'000	2015 A$'000
Loans and borrowings	84,799	105,446
	84,799	105,446

At 30 June 2016, if the United States dollar strengthened or weakened against the Australian dollar by the percentage shown below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	Post tax loss		Equity	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
+ 10%	7,709	9,586	(7,709)	(9,586)
- 10%	(9,422)	(11,716)	9,422	11,716

Reasonably possible movements in exchange rates were determined based on observations of historical movements in the past two years.

The reasonably possible movement was calculated by taking the USD spot rate as at balance, moving this spot rate by the reasonably possible movements and then re-converting the USD into AUD with the new spot rate.

The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

As at 30 June 2016, the AUD:USD exchange rate is A$1:US$0.7426 and the year to date average AUD:USD exchange rate is A$1:US$0.7283. The Group uses exchange rates provided by the Reserve Bank of Australia.

(f) Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts over a rolling quarterly period to cover 100% of the following two quarter's operating expenditure with cover decreasing to 25% of quarter eight's forecast operating expenditure.

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

(g) Fair value estimation

The fair value of financial assets and financial liabilities is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

The fair value of financial assets and liabilities approximate their carrying values, unless otherwise specified.

Note 13: Capital Risk Management

When managing capital, management's objective is to safeguard the Company's ability to continue as a going concern as well as to maintain an optimum return to shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Company.

Management constantly adjusts the capital structure to take advantage of favourable costs of capital or high return on assets. As the market is constantly changing, management may return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors its capital through monthly Board of Director reporting including management accounts and forecasts combined with appropriate external financial, corporate and legal advice when required.

To a lesser extent, gearing ratios are also used to monitor capital. Appropriate capital levels are maintained to ensure that all approved expenditure programs are adequately funded. This funding is derived from a combination of debt and equity. Refer to Note 3 for information on going concern.

The gearing ratio is calculated as net debt divided by total capital. Net debt is defined as loans and borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the Consolidated Statement of Financial Position plus net debt.

	2016	2015
Gearing ratio	79.3%	93.5%

The Group is not subject to any externally imposed capital restrictions.

GROUP STRUCTURE

This section provides information which will help users understand how the group structure affects the financial position and performance of the Group as a whole.

Note 14: Interests in Other Entities

(a) Subsidiaries

The consolidated financial statements include the financial statements of MZI Resources Ltd and the subsidiaries listed in the following table:

Name of entity	Incorporation Country	Equity holding % 2016	Equity holding % 2015
Keysbrook Leucoxene Pty Ltd	Australia	100%	100%
NT Exploration Pty Ltd (i)	Australia	100%	100%
Keysbrook Property Pty Ltd (i)	Australia	100%	-

These entities are not required to be separately audited. An audit of the entity's results and position is performed for the purpose of inclusion in the Consolidated Financial Statements.

(b) Ultimate Parent

MZI Resources Ltd is the ultimate Australian Parent entity and ultimate Parent of the Group.

UNRECOGNISED ITEMS

This section of the notes provides information about items that are not recognised in the Consolidated Financial Statements as they do not (yet) satisfy the recognition criteria.

In addition to the items and transactions disclosed below, there are also:

- Unrecognised tax amounts – see Note 6
- Non-cash investing and financing transactions – see Note 10.

Note 15: Contingent Liabilities

Refer to Note 7(g)(vii) for details relating to a contingent facility provide by RMB Resources Limited.

Note 16: Commitments

(a) Capital commitments

The Group has $1.892m in capital commitments due within one year as at 30 June 2016 (2015: $24.209m) in relation to the construction and development of the Keysbrook Project.

(b) Non-cancellable operating leases

During the year ended 30 June 2013, the Company entered into a commercial lease to rent office space. The lease has a fixed term with an option to renew for a further 3 years at the Company's discretion included in the contract. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals payable under the non-cancellable operating leases as at 30 June are as follows:

	30 Jun 16 $'000	30 Jun 15 $'000
Not later than one year	251	269
Later than one year but not later than five years	42	279
Aggregate lease expenditure contracted for at balance date but not provided for	293	548

(c) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to meet the minimum expenditure requirements specified by various State and Territory Governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in this financial report.

The level of exploration expenditure expected in the year ending 30 June 2017 for the Group is approximately $0.466m. This includes the minimum amounts required to retain tenure. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond 2016 are dependent upon whether existing rights of tenure are renewed or new rights of tenure are acquired.

Note 17: Events Occurring After the Reporting Period

On 6 July 2016, the Company issued 3,793,731 fully paid ordinary shares at an issue price of $0.2570 per share to RCF for payment of interest and commitment fees for the June 2016 quarter, associated with the Keysbrook finance facilities.

On 22 August 2016, the Company announced that Mr Rodney Baxter would succeed Mr Malcolm Randall as Chairman effective immediately. Mr Malcolm Randall will remain a Non-Executive Director until the Company's Annual General Meeting to be held in November 2016.

OTHER INFORMATION

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

Note 18: Related Party Transactions

(a) Loans to subsidiaries

Loans between entities in the wholly owned Group are non-interest bearing, unsecured and are payable upon reasonable notice having regard to the financial situation of the entity.

(b) Transactions with related parties

The following transactions were undertaken between any Group company and the following Director-related parties during the years ended 30 June 2016 and 30 June 2015:

- Tricoastal Minerals (Holdings) Company Limited, a company in which Mr CT Wong has a beneficial interest, was paid Director's fees of $0.073m (2015: $0.070m). At 30 June 2016, an amount of $0.019m (2015: $0.018m) was owed to Tricoastal Minerals (Holdings) Company Limited.
- During the year ended 30 June 2013, the Company sold production from its Tiwi Islands Lethbridge South project to Tricoastal Minerals (Holdings) Company Limited. This was based on a sales agreement signed in 2010. The terms of sale are based on market prices at the time of sale.

  From the sale proceeds amounts have been repaid against a loan received in a prior year from Tricoastal Minerals (Holdings) Company Limited. There is a balance of US$0.457m outstanding at 30 June 2016 (2015: US$0.457m). This is now the subject of a settlement deed, refer Note 7(g) for details.
- During the year ended 30 June 2016, the Company sold zircon concentrate product for US$3.794m 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 and Commitment Fees of US$3.463m (2015: US$3.113m). At 30 June 2016, an amount of $0.019m (2015: $0.018m) was owed to RCF.

In addition, an amount of US$25.500m was repaid and an amount of US$8.000m was drawn down in relation to Bridge Finance Facilities during the year ended 30 June 2016.

Refer to Note 7(g)(vi) for details of the above facilities.

(c) Compensation of Directors and Key Management Personnel

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

	30 Jun 16 $	30 Jun 15 $
Short-term	2,294,391	1,692,003
Post-employment	224,735	183,746
Share-based payments	2,182,202	852,576
	4,701,328	2,728,325

Note 19: Share-Based Payments

(a) Share-Based Payment Transactions

The Company provides benefits to employees (including Directors) in the form of share-based payments whereby employees render services in exchange for shares or rights over shares ("share-based payments" or "equity-settled transactions").

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date they are granted. The value is determined using an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of MZI ("market conditions") if applicable.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Consolidated Statement of Comprehensive Income charge or credit for the period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification as measured at the date of modification.

Where an equity-settled award is cancelled (other than cancellation when a vesting condition is not satisfied), it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of the outstanding options is reflected as additional share dilution in the computation of earnings per share.

(b) Options issued under the Employee Share Option Plan ("Plan A")

Plan A was established where Directors, senior management and members of staff of the Group may be issued with options over ordinary shares of MZI. The options, issued for nil consideration, are issued in accordance with the terms and conditions of the shareholder approved Plan A and performance guidelines established by the Directors of MZI.

Employees do not possess any rights to participate in Plan A as participation is solely determined by the Board of Directors. Options may be exercised at any time from the date of vesting to the date of expiry. The exercise price for employee options granted under Plan A will be fixed by the Board of Directors prior to the grant of the employee option. Each employee share option converts to one ordinary share in MZI. The options do not provide any dividend or voting rights. The options are not quoted on the ASX.

The objective of Plan A is to assist in the recruitment, reward, retention and motivation of the employees of the Group.

A total of 1,100,000 options over ordinary shares under Plan A were in place during the year. As at 30 June 2016, 125,000 options (Series 6) lapsed and 1,100,000 remain unvested (Series 13).

(c) Options issued to Directors

A total of 200,000 options over ordinary shares were granted on 27 June 2014 following approval at a General Meeting held on that date (Series 10). The exercise price for these options granted to Non-Executive Directors is $0.80.

A further 1,700,000 options over ordinary shares were granted on 1 December 2015 follow approval at a General Meeting held on 24 November 2016 (Series 13). The exercise price for these options granted to Non-Executive Directors is $0.65.

These options may be exercised at any time from the date of vesting to the date of expiry. Each option converts to one ordinary share in MZI. The options do not provide any dividend or voting rights. The options are not quoted on the ASX.

The primary purpose of the above grants is to motivate and reward the performance of Non-Executive Directors in their respective roles.

These options over ordinary shares were in place during the year and as at 30 June 2016.

(d) Options issued in consideration for services

On 21 June 2013, the Company granted 112,500 options with an exercise price of $0.80 to a consultant in consideration for services in relation to a capital raising (Series 8). There are no voting rights attached to the options and they may be exercised at any time on or before 3 July 2016.

The fair value of these options has been disclosed as consultant costs in a prior year.

On 5 December 2013, the Company granted 1,250,000 options with an exercise price of $0.64 to a consultant in consideration for corporate advisory services (Series 9). There are no voting rights attached to the options and they may be exercised at any time on or before 5 December 2016.

The fair value of these options has been disclosed as consultant costs in the prior year.

On 27 June 2014, the Company granted 1,987,500 options with an exercise price of $0.6592 to Resource Capital Fund VI L.P. (“RCF”) in consideration for the acceptance fees for the finance facilities to develop the Keysbrook Project (Series 11). There are no voting rights attached to the options and they may be exercised at any time on or before 3 July 2017.

The fair value of these options has been disclosed as transaction costs included in other current assets in the prior year.

On 19 November 2014, the Company granted 775,000 options with an exercise price of $0.34 to RCF in consideration for the acceptance fees for the finance facilities to develop the Keysbrook Project (Series 12). There are no voting rights attached to the options and they may be exercised at any time on or before 19 November 2017.

The fair value of these options has been disclosed as transactions costs associated with the Bridge Facilities.

On 23 December 2015, the Company granted 1,000,000 options with an exercise price of $0.50 to a consultant in consideration for services in relation to a capital raising (Series 14). There are no voting rights attached to the options and they may be exercised at any time on or before 30 May 2018.

The fair value of these options has been disclosed as share-based payments.

These options over ordinary shares were in place during the year and as at 30 June 2016.

(e) Movements in options

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

	2016			2015		
	Options No.	Weighted average exercise price		Options No.	Weighted average exercise price	
Outstanding at the beginning of the year	4,950,000	$	0.7674	4,300,000	$	0.8686
Granted during the year	3,800,000	$	0.6105	775,000	$	0.3400
Expired during the year	(500,000)	$	(1.6000)	(125,000)	$	(1.6000)
	8,250,000	$	0.6447	4,950,000	$	0.7674

The weighted average remaining contractual life of the share options as at 30 June 2015 is 1.86 years (2015: 1.72 years).

The weighted average fair value of options granted during the year was $0.2164 (2015: $0.1974).

The following table lists the inputs to the model for options in place as at 30 June 2016:

	Series 6	Series 8	Series 9	Series 10	Series 11	Series 12	Series 13	Series 14
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility (%)	80.00%	99.50%	99.40%	99.40%	99.40%	100.00%	99.70%	99.70%
Risk-free interest rate (%)	4.50%	2.50%	3.10%	2.70%	2.70%	2.57%	2.21%	2.04%
Expected life of options (years)	4.132	3.000	3.000	3.000	3.016	3.000	4.000	2.436
Exercise price (cents)	300.0	80.0	64.0	80.0	65.9	34.0	65.0	50.0
Grant date share price (cents)	80.0	56.0	48.0	36.0	36.0	32.0	38.5	36.0
Grant Date	27 Apr 12	21 Jun 13	5 Dec 13	27 Jun 14	27 Jun 14	19 Nov 14	01 Dec 15	23 Dec 15
Expiry Date	30 Jun 16	3 Jul 16	5 Dec 16	27 Jun 17	02 Jul 17	19 Nov 17	01 Dec 19	30 May 18
Number	125,000	112,500	1,250,000	200,000	1,987,500	775,000	2,800,000	1,000,000
Fair value at grant date (cents)	$0.2800	$0.3120	$0.2760	$0.1680	$0.1840	$0.1974	$0.2344	$0.1806

The expected life of the option is based on historical data and is not necessarily indicative of exercise payments that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The fair value of the options is measured at grant date using the Black-Scholes option valuation method taking into account the terms and conditions upon which the instruments were granted. The services received and liabilities to pay for those services are recognised over the expected vesting period.

(f) Rights over shares issued under the Employee Share Trust Plan (“Plan B”)

Plan B was established where KMP of the Group may be issued with rights over fully paid ordinary shares of MZI. The rights over shares, issued for nil consideration, are issued in accordance with the terms and conditions as approved at a General Meeting by shareholders and performance guidelines established by the Board of Directors of MZI.

KMP do not possess any rights to participate in Plan B as participation is solely determined by the Board of Directors. Rights over shares convert to one fully paid ordinary share in MZI at an exercise price of nil upon meeting certain non-market based performance conditions. The rights over shares do not provide any dividend or voting rights. These rights over shares are not quoted on the ASX. If a KMP ceases to be employed by the Group within the period, the unvested rights will be forfeited.

The objective of Plan B is to assist in the recruitment, reward, retention and motivation of the KMP of the Group.

During the year ended 30 June 2015, 844,188 rights over shares were granted with shares vesting upon final investment decision by 31 December 2014.

The rights to these shares have vested as at 30 June 2016.

During the year ended 30 June 2016, 1,111,004 rights over shares were granted as compensation for meeting performance conditions associated with the 30 June 2015 financial year. The rights to these shares have vested as at 30 June 2016.

During the year ended 30 June 2016, a further 1,726,124 rights over shares were granted as long term incentives ("LTI") with the following performance conditions:

- 50% of the LTI units in the share trust will be assessed for vesting based upon the Company's relative share price performance versus the ASX 300 Index per the scale below.
  - Below -10% of index performance – nil vesting;
  - From -10% to 0% of index performance – vests at a rate of 2.5% of units in the share trust for each 1% movement;
  - From 0% to 25% above index performance – vests at 3% of units in the share trust for each 1% movement; and
  - From 25% to 50% above index performance - vests at 4% of units for each 1% movement.
- 50% of the LTI units in the share trust will be assessed for vesting based on the compound annual growth rate (CAGR) achieved in the price of the Company's shares from 1 January 2016 to 30 June 2018 per the scale below.
  - From 0% to 10% - vests at 3% of units in the share trust for each 1% of CAGR; and
  - Above 10% - vests at 7% of units in the share trust for each 1% of CAGR.

In both cases, no award will be granted unless the Company's share price at the vesting date of 30 June 2018 exceeds the share price as at 1 January 2016. In addition, shares may not be disposed of by the KMP within 12 months of vesting date.

These rights over shares remain unvested as at 30 June 2016.

A further 1,729,840 rights over shares were granted as short term incentives ("STI") with the following performance conditions:

- Improved safety performance measured by hazard identification response timeliness and Total Recordable Injury Frequency Rate compared to prior year; and
- Achievement of defined targets such as final saleable product, cash operating costs and EBITDA.

These rights over shares remain unvested as at 30 June 2016.

The rights over shares are administered by the MZI Resources Ltd Employee Share Trust. The shares were issued at market price on grant date and are held as treasury shares until such time as they are vested. Forfeited shares are reallocated in subsequent grants. Under the terms of the trust deed, MZI is required to provide the trust with the necessary funding for the acquisition of the shares at the time of the grant of the right.

(g) Movements in rights over shares

This table illustrates the number and weighted average fair value of rights over shares and movements in rights over shares issued during the year:

	2016			2015		
	Rights over shares No.	Weighted average fair value		Rights over shares No.	Weighted average fair value	
Outstanding at beginning of year	893,908	$	0.4529	2,191,850	$	0.4358
Granted during the year	4,566,968	$	0.4047	844,188	$	0.2500
Vested during the year	(2,004,912)	$	(0.4430)	(1,990,113)	$	(0.3551)
Forfeited during the year	-	$	-	(152,017)	$	(0.3600)
	3,455,964	$	0.3950	893,908	$	0.4529

The fair value of the rights over shares at grant date was estimated by taking the market price of the Company's shares on that date less the present value of expected dividends that will not be received by the KMP on their rights over shares during the vesting period.

The weighted average remaining contractual life of the rights over shares as at 30 June 2016 is 1 years (2015: 0.74 years).

(h) Performance rights issued under the Employee Incentive Plan ("Plan C")

Plan C was established where employees of the Group may be issued with performance rights entitling each participant to a fully paid ordinary share. The performance rights, issued for nil consideration, are issued in accordance with the terms and conditions as approved at a General Meeting by shareholders and performance guidelines established by the Board of Directors of MZI.

Employees do not possess any rights to participate in Plan C as participation is solely determined by the Board of Directors. Performance rights convert to one fully paid ordinary share in MZI at an exercise price of nil upon meeting certain non-market based performance conditions. The performance rights do not provide any dividend or voting rights. These performance rights are not quoted on the ASX. If an employee ceases to be employed by the Group within the period, the unvested performance rights will be forfeited.

The objective of Plan C is to assist in the recruitment, reward, retention and motivation of the KMP of the Group.

During the year ended 30 June 2015, 821,280 performance rights were granted with the performance condition of a positive final investment decision in the Keysbrook project by 31 December 2014. These performance rights have vested as at 30 June 2016.

During the year ended 30 June 2016, 449,184 performance rights were granted as compensation for meeting performance conditions associated with the 30 June 2015 financial year. These performance rights have vested as at 30 June 2016.

(i) Movements in performance rights

This table illustrates the number and weighted average fair value of performance rights and movements in performance rights issued during the year:

	2016			2015		
	Performance rights No.	Weighted average fair value		Performance rights No.	Weighted average fair value	
Outstanding at beginning of year	-	$	-	65,000	$	0.4800
Granted during the year	449,184	$	0.3200	821,280	$	0.2500
Vested during the year	(449,184)	$	(0.3200)	(821,280)	$	(0.2500)
Forfeited during the year	-	$	-	(65,000)	$	(0.4800)
	-	$	-	-	$	-

The fair value of the performance rights at grant date was estimated by taking the market price of the Company's shares on that date less the present value of expected dividends that will not be received by the employees on their performance rights during the vesting period.

The weighted average contractual life of the performance rights as at 30 June 2016 is nil (2015: nil).

There were no cash settled share-based payments during the year (2015: $nil).

Note 20: Remuneration of Auditors

	30 Jun 16	30 Jun 15
Amounts paid or due and payable to the auditors:		
Auditing and reviewing of financial reports	130,000	89,000
Tax services related to the Group	28,973	4,790
	158,973	93,790

During the year ended 30 June 2016, the Company changed its auditors from HLB Mann Judd to PricewaterhouseCoopers.

Note 21: Loss per Share

	30 Jun 16 $'000	30 Jun 15 $'000
Loss used in calculating basic and diluted loss per share	(24,412)	(16,646)
Loss used in calculating basic and diluted loss per share from continuing operations	(24,412)	(16,646)
	2016 No.	**2015 No.**
Weighted average number of ordinary shares used in the calculation of basic & diluted loss per share	143,136,568	75,093,109

Basic earnings/loss per share is determined by dividing net profit or loss after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings/loss per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares by the weighted average number of shares assumed to have been issued for no consideration in relation to potential ordinary shares.

Note 22: Parent Entity Information

	30 Jun 16 $'000	30 Jun 15 $'000
Current assets	9,729	11,048
Non-current assets	39,187	23,740
Total assets	48,916	34,788
Current liabilities	2,796	2,695
Non-current liabilities	493	15,988
Total liabilities	3,289	18,683
Issued capital	114,041	66,604
Reserves	1,619	2,074
Accumulated losses	(70,033)	(52,573)
	45,627	16,105
Loss for the year	(17,459)	(7,257)
Total comprehensive loss for the year	(17,459)	(7,257)

The Company has no material contingent liabilities; however, it has contractual obligations in the form of leases to rent office space. Refer to Note 16 for further details of commitments.

Note 23: Changes in Accounting Policies

In the year ended 30 June 2016, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to the Group and effective for the current annual reporting period.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and, therefore no material change is necessary to Group accounting policies.

Note 24: New Accounting Standards and Interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 30 June 2016 are outlined below.

- AASB 9 Financial Instruments (effective from 1 January 2018) AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

- AASB 15 Revenue from contracts with customers (effective from 1 January 2018) AASB 15 introduces a new framework for accounting for revenue and will replace AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programs. AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, therefore the notion of control replaces the exiting notion of risks and rewards. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

- AASB 16 Leases (effective from 1 January 2019) One of the key changes to AASB 16 Leases is that lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. AASB 16 will result in lessees recognising most leases on the balance sheet. The Group has not yet determined the extent of the impact of this standard, which is yet to be adopted by the AASB.

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.

In the opinion of the Directors:

1. the financial statements and notes are in accordance with the *Corporations Act 2001*, including:

   (a) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (b) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;

2. the financial statements and notes thereto are in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board; and

3. at the date of this declaration, subject to Note 3, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

T Matthews

Managing Director

Perth, Western Australia

29 September 2016

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Independent auditor's report to the members of MZI Resources Ltd

Report on the financial report

We have audited the accompanying financial report of MZI Resources Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the MZI Resources Ltd Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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Independent auditor's report to the members of MZI Resources Ltd (continued)

Auditor's opinion

In our opinion:

(a) the financial report of MZI Resources Ltd is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 3.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 3 in the financial report, which indicates the need for the consolidated entity to raise additional funding to meet ongoing expenditure and existing commitments. This condition, along with other matters set out in Note 3, indicate the existence of a material uncertainty 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 and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 10 to 22 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of MZI Resources Ltd for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ben Gargett
Partner

Perth
29 September 2016