and its controlled entities

ABN 52 077 221 722

INTERIM FINANCIAL REPORT

For the half-year ended 31 December 2016

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Corporate Directory

Board of Directors

Rodney Baxter	Independent Non-Executive Chairman
Stephen Ward	Interim Managing Director and Chief Executive Officer
Chi To (Nathan) Wong	Non-Executive Director
Maree Arnason	Independent Non-Executive Director
Ronald Beevor	Non-Executive Director

Company Secretary

John Traicos

Registered Office

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Share Registry

Computershare Investor Services Pty Ltd
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Perth, Western Australia 6000

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 half-year ended 31 December 2016 ("period ending 31 December 2016").

1 Directors

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

Rodney Baxter[1]	Independent Non-Executive Chairman	
Chi To (Nathan) Wong	Non-Executive Director	
Stephen Ward[2]	Interim Managing Director and Chief Executive Officer	
Maree Arnason	Independent Non-Executive Director	
Ronald Beevor	Non-Executive Director	
Trevor Matthews[3]	Managing Director	Resigned 7 November 2016
Malcolm Randall[4]	Independent Non-Executive Director	Resigned 22 November 2016

[1] Mr Rodney Baxter was appointed Non-Executive Chairman on 22 August 2016 and was a Non-Executive Director for whole of the half-year.

[2] Dr Stephen Ward was appointed Interim Managing Director and Chief Executive Officer on 7 November 2016 and was an Independent Non-Executive Director for the half-year up to the date of his appointment as Interim Managing Director and Chief Executive Officer.

[3] Mr Trevor Matthews resigned as Managing Director on 7 November 2016.

[4] Mr Malcolm Randall resigned as Non-Executive Chairman on 22 August 2016 and remained as an Independent Non-Executive Director up to the date of his resignation from the Board on 22 November 2016.

2 Operating and Financial Review

2.1 Operating Result

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

Consolidated	
31 Dec 16 $'000	31 Dec 15 $'000
(20,575)	(2,973)

2.2 Review of Operations

The following significant events occurred during the half year:

- Positive first half operating cash flows generated by Keysbrook operations, before finance costs;
- Half year production 29,014dt (2015: 5,886dt);
- Significant overall improvement in operational performance;
- Leadership transition at both Board and Senior Management level;
- US$16.0m debt facility secured;
- Mineral sands market conditions continue to strengthen.

Keysbrook

No Lost Time Injuries occurred during the half year ending 31 December 2016.

Since commissioning and processing commenced in late 2015, the operational focus has been on improving heavy mineral recovery both at the Keysbrook Wet Concentrator Plant (“WCP”) and Doral’s Mineral Separation Plant (“MSP”) and in achieving long-term sustainable throughput rates and plant reliability. An improvement trend continued over the 6 months to 31 December 2016, during which the WCP Optimisation Project was successfully completed in late November 2016, including commissioning of 48 large capacity spirals and upgraded screening equipment. Consequently, record quarterly heavy mineral concentrate (“HMC”) was achieved in the December 2016 quarter.

Following commissioning of the new spirals and screening equipment, the WCP achieved design performance parameters with respect to HMC recovery and grade over a four day test run at design throughput levels. Notably, HMC recovery levels circa two per cent above design have already been shown to be possible, and Keysbrook Operations are now focused on continuous improvement in pursuit of sustained higher level performance.

Mining volumes for the first and second quarters were consistent, with a total 2,004,369dt mined for the period ending 31 December 2016. Mining in the current area will be completed early in 2017 and mining activity will move to a new area on the eastern side of the orebody.

Final product sales for the half year ending 31 December 2016 for all products totalled 20,227dt (2015: 1,008dt). Total sales revenue for the half year ending 31 December 2016 totalled $14.095m (2015: nil).

Key operating statistics for the period ending 31 December 2016 are included below. Performance in the half year ending 31 December 2015 primarily related to commissioning activities and ramp-up.

Production	Unit	31 Dec 16	31 Dec 15
Ore Mined	dt	2,004,369	1,057,988
Ore Processed	dt	1,853,016	599,369
Mined Grade	% HM	2.63	2.99
WCP Availability	%	78.4	82.4
MSP Availability	%	93.2	Commissioning
HMC Production (WCP)	dt	48,962	16,008
HMC Processed (MSP)	dt	44,093	9,011
L70	dt	6,625	2,316
L88	dt	14,943	1,795
Zircon Concentrate	dt	7,446	1,775
Total Products	dt	29,014	5,886
Sales			
L70	dt	-	-
L88	dt	13,093	-
Zircon Concentrate	dt	7,134	1,008
Total	dt	20,227	1,008

Exploration

Activities for the half year ending 31 December 2016 focused on compilation and preparation of data from the drilling program completed in June 2016 to enable a revised resource estimate for the Keysbrook Deposit.

Final mineral assemblage samples were submitted for analysis during the December 2016 quarter with 95 percent of the results being reported at the end of the reporting period. The revised estimate is expected to be completed during the March 2017 quarter.

Corporate

In November 2016, the Company announced a US$16m debt funding package with Resource Capital Fund VI L.P ("RCF"). These funds will ensure MZI has the financial flexibility to deliver on the optimisation activities required at the Keysbrook Project to ensure the plant achieves the targeted production rates.

The key terms of the facility are as follows:

- Interest rate of 10% per annum;
- Secured over the Company's assets for the facility term;
- Repayment term of 12 months from facility drawdown

On 22 August 2016 Mr Malcolm Randall resigned as Chairman and was replaced by Mr Rod Baxter. The Company also announced a leadership transition in early November 2016 with Mr Trevor Matthews resigning as Managing Director and Dr Stephen Ward appointed as Interim Managing Director. Following the Company's AGM in late November, Mr Randall resigned as a Non-Executive Director.

Included in the Consolidated Interim Financial Statements for the half-year ended 31 December 2016 is an independent auditor's review report which includes an Emphasis of Matter paragraph in regard to the existence of a material uncertainty that may cast doubt about the Group's ability to continue as a going concern. For further information, refer to Note 2 to the financial statements, together with the auditor's review report.

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

3 Subsequent Events

On 9 January 2017, the Company issued 3,515,960 fully paid ordinary shares at an issue price of $0.2878 per share to RCF for payment of interest and commitment fees for the December 2016 quarter, associated with the Keysbrook finance facilities.

4 Rounding

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with the instrument.

5 Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is included on page 6 of this financial report.

This report is made in accordance with a resolution of Directors.

Dr S Ward

Interim Managing Director

Perth, Western Australia
9 March 2017

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Auditor's Independence Declaration

As lead auditor for the review of MZI Resources Ltd for the half-year ended 31 December 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 review; and

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

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

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
9 March 2017

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2016

	Note	31 Dec 16 $'000	31 Dec 15 $'000
Continuing Operations			
Revenue from sales	4	14,095	-
Costs of production	4	(11,435)	-
		2,660	-
Depreciation and amortisation	4	(5,533)	(215)
Other operating costs relating to sales	4	(4,663)	(54)
Gross Loss		(7,536)	(269)
Other income	4	-	272
Corporate expenses	4	(2,946)	(4,177)
Other expenses	4	(46)	(616)
Loss on foreign exchange	4	(2,788)	(6,679)
Fair value movements on financial instrument derivatives	4	647	12,836
Loss before Finance and Tax		(12,669)	1,367
Finance income		18	11
Finance expenses	4	(7,924)	(4,351)
Loss before Tax		(20,575)	(2,973)
Tax expense		-	-
Loss after Tax from Continuing Operations		(20,575)	(2,973)
Attributable to:			
Equity holders of the parent		(20,575)	(2,973)
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		367	(875)
Total Comprehensive Loss for the Period		**(20,208)**	**(3,848)**
Attributable to:			
Equity holders of the parent		(20,208)	(3,848)
Basic and diluted loss per share (cents per share)		(0.10)	(0.03)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the half-year ended 31 December 2016

	Note	31 Dec 16 $'000	30 Jun 16 $'000
Current Assets			
Cash and cash equivalents	**5(a)**	13,106	2,500
Trade and other receivables	**5(b)**	576	10,710
Inventories	**6(a)**	8,663	4,227
Other current assets		633	922
Other financial assets	**5(c)**	2,131	265
Total Current Assets		25,109	18,624
Non Current Assets			
Trade and other receivables	**5(b)**	682	682
Property, plant and equipment		89,002	86,411
Exploration and evaluation expenditure		796	615
Mine development expenditure		42,119	42,352
Total Non Current Assets		132,599	130,060
Total Assets		157,708	148,684
Current Liabilities			
Trade and other payables		7,702	6,487
Provisions		1,191	1,227
Other financial liabilities	**5(d)**	1,353	3,077
Borrowings	**5(e)**	34,297	11,803
Total Current Liabilities		44,543	22,594
Non Current Liabilities			
Provisions		6,721	6,028
Other financial liabilities	**5(d)**	2,712	329
Borrowings	**5(e)**	95,056	93,062
Total Non Current Liabilities		104,489	99,419
Total Liabilities		149,032	122,013
Net Assets		8,676	26,671
Equity			
Share capital	**7(a)**	115,960	114,041
Reserves		320	(341)
Accumulated losses		(107,604)	(87,029)
Total Equity		8,676	26,671

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2016

	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 2015	66,604	(1,453)	(540)	1,562	1,052	(62,617)	4,608
Loss for the year	-	-	-	-	-	(2,973)	(2,973)
Other comprehensive loss	-	(875)	-	-	-	-	(875)
Total Comprehensive Loss for the Year	-	(875)	-	-	-	(2,973)	(3,848)
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	31,337	-	-	-	-	-	31,337
Options issued							-
Recognition of share-based payments	173	-	102	471	-	-	746
Balance at 31 December 2015	98,114	(2,328)	(438)	2,033	1,052	(65,590)	32,843
Balance at 1 July 2016	114,041	(2,045)	(1,646)	2,298	1,052	(87,029)	26,671
Loss for the year	-	-	-	-	-	(20,575)	(20,575)
Other comprehensive income	-	367	-	-	-	-	367
Total Comprehensive Loss for the Year	-	367	-	-	-	(20,575)	(20,208)
Transactions with Owners in their Capacity as Owners:							
Shares issued (net of costs)	1,919	-	-	-	-	-	1,919
Options issued	-	-	-	-	-	-	-
Recognition of share-based payments	-	-	20	274	-	-	294
Balance at 31 December 2016	115,960	(1,678)	(1,626)	2,572	1,052	(107,604)	8,676

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2016

	Note	31 Dec 16 $'000	31 Dec 15 $'000
Cash Flows from Operating Activities			
Receipts from customers		24,846	-
Sundry income received		-	272
Interest received		17	136
Payments to suppliers and employees (inclusive of GST)		(24,440)	(3,589)
Finance costs		(3,520)	(2,753)
Net Cash Flows from Operating Activities		(3,097)	(5,934)
Cash Flows from Investing Activities			
Receipt of security deposits		-	2
Proceeds from sale of property, plant and equipment		-	1
Payments for exploration and evaluation		(264)	(556)
Payments for security deposits		-	(30)
Payments for mine development		-	(7,238)
Payments for property, plant and equipment		(5,418)	(34,372)
Net Cash Flows from Investing Activities		(5,682)	(42,193)
Cash Flows from Financing Activities			
Proceeds from issue of shares and other securities		-	22,004
Share issue costs		(11)	(1,710)
Proceeds from borrowings		22,473	16,726
Repayment of borrowings		(2,932)	(18,005)
Net Cash Flows from Financing Activities		19,530	19,015
Net (decrease)/increase in cash and cash equivalents		10,751	(29,112)
Cash and cash equivalents at the beginning of the period		2,500	33,790
Effect of exchange rate fluctuations on cash held		(145)	(16)
Cash and Cash Equivalents at Period End	**5(a)**	13,106	4,662

The accompanying notes form part of these financial statements.

Note 1: Corporate Information

The condensed consolidated interim financial statements of MZI Resources Ltd and its subsidiaries (collectively, the "Group") for the half-year ended 31 December 2016 were authorised for issue in accordance with a resolution of Directors on 9 March 2017.

MZI is a for-profit company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group's principal activities are the exploration, development and production of heavy minerals.

Note 2: Summary of Significant Accounting Policies

(a) Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by MZI Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(b) Going concern

The consolidated 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.

For the half year ended 31 December 2016, the Group had net current liabilities of $19.434 million and incurred a loss after tax of $20.575 million. Cash flows from operating and investing activities were negative $8.779 million as a result of the continued ramp-up of the Keysbrook Project during the period.

The Group has prepared a cash flow forecast for the life of the Keysbrook Project. The forecast 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 repay the Additional Working Capital Facility provided by its major shareholder, Resource Capital Fund VI L.P. ("RCF"), during the next 12 month period unless this facility is extended with the agreement of RCF.

As a result of these matters there is 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.

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

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

(c) Comparatives

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current half-year ended 31 December 2016.

(d) Adoption of new and revised Accounting Standards

The accounting policies adopted in preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the ended 30 June 2016, except for the adoption of new standards and interpretations noted below.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 31 December 2016 are outlined below.

- AASB 9 Financial Instruments (effective from 1 January 2018) 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) 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 is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 16.

(f) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016:

- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation;
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual improvements to Australian Accounting Standards 2012 – 2014 cycle, and
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure initiative: Amendments to AASB 101.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

The Group also elected to adopt the following amendments early:

- AASB 2016-2 Amendments to Australian Accounting Standard – Disclosure Initiative: Amendment to AASB 107.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Note 3: Segment Reporting

31-Dec-16	Tiwi Island Projects $'000	Keysbrook Project $'000	Unallocated Corporate / Other $'000	Consolidated $'000
Segment revenue - external	-	14,095	-	14,095
Finance income	-	8	10	18
Finance expenses	-	(7,365)	(559)	(7,924)
Segment results	(46)	(16,891)	(3,639)	(20,576)
Segment assets	577	149,857	7,274	157,708
Segment liabilities	863	146,301	1,868	149,032

31-Dec-15	Tiwi Island Projects $'000	Keysbrook Project $'000	Unallocated Corporate / Other $'000	Consolidated $'000
Other income	272	-	-	272
Finance income	-	-	11	11
Finance expenses	-	(1,588)	(2,763)	(4,351)
Segment results	272	(7,106)	3,861	(2,973)
Segment assets	2,131	144,408	2,749	149,288
Segment liabilities	1,433	113,079	1,932	116,444

Note 4: Revenue and Expenses

	31 Dec 16 $'000	31 Dec 15 $'000
Sales revenue		
Leucoxene and zircon sales	14,095	-
Costs of production		
Production	(10,787)	-
Shipping	(648)	-
	(11,435)	-
Depreciation and amortisation		
Depreciation	(4,191)	(215)
Amortisation	(1,342)	-
	(5,533)	(215)
Other operating costs relating to sales		
Royalties and landowner payments	(508)	(54)
Operational support costs	(4,155)	-
	(4,663)	(54)
Other income		
Sundry income	-	272
	-	272
Corporate expenses		
Audit and review fees	(54)	(30)
Consulting fees	(212)	(365)
Travel and accommodation	(66)	(71)
Occupancy costs	(199)	(197)
Share-based payments - employee benefits	(294)	(1,143)
Salaries and wages	(1,531)	(1,656)
Depreciation of non mine assets	(104)	-
Other	(228)	(484)
Directors' fees	(258)	(231)
	(2,946)	(4,177)
Other expenses		
Rehabilitation - non operating minesites	-	(616)
Expenditure of exploration and evaluation	(46)	-
	(46)	(616)
Loss on foreign exchange		
Net loss on foreign exchange	(2,788)	(6,679)
	(2,788)	(6,679)
Fair value movements on financial instrument derivatives		
Fair value movement on derivatives	647	(2,619)
De-recognition of option associated with convertible loan	-	15,455
	647	12,836
Finance		
Interest income	18	11
Finance income	18	11
Interest and fees on borrowings	(6,221)	(2,622)
Interest accretion	(1,703)	(1,729)
Finance expenses	(7,924)	(4,351)
Total net finance expense	(7,906)	(4,340)

Note 5: Financial Assets and Liabilities

(a) Cash and Cash Equivalents

	31 Dec 16 $'000	30 Jun 16 $'000
Cash at bank (i)	13,106	2,500

Restrictions on cash and cash equivalents:

(i) Included in the cash disclosed above is A$2.07m that is specifically reserved for future interest and fee payments against the Senior Project Facility. Following repayment of the Senior Project Facility principal any surplus funds will be unrestricted.

(b) Trade and Other Receivables

	31 Dec 16 $'000	30 Jun 16 $'000
Current		
Trade Receivables (i)	-	10,247
Other Receivables	576	463
	576	10,710
Non Current		
Security Deposits	682	682

(i) The Group received all proceeds from trade receivables at 31 December 2016.

(c) Other Financial Assets

	31 Dec 16 $'000	30 Jun 16 $'000
Other financial assets (i)	2,131	265

(i) Embedded derivatives

In November 2014, the Group entered into a facility agreement with Resource Capital Fund VI L.P. (“RCF”). Included within the facility agreement is an option to convert the remaining Bridge Finance Facilities into a new convertible loan.

At drawdown of the remaining Bridge Finance Facilities, the fair value of the embedded derivatives associated with the facilities was $0.678m liability.

At 31 December 2016, the fair value of the embedded derivatives associated with the facilities was an asset of $1.472m (June 2016: liability $0.216m), $0.659m relates to the L88 derivative valuation.

(d) Other Financial Liabilities

	31 Dec 16 $'000	30 Jun 16 $'000
Current		
Other financial liabilities	110	910
Cash flow hedges (i)	1,243	1,951
Embedded derivatives (ii)	-	216
	1,353	3,077
Non Current		
Other financial liabilities	225	235
Cash flow hedges (i)	555	94
Embedded derivatives (ii)	1,932	-
	2,712	329

(i) Cash flow hedges

During the half-year ended 31 December 2016, the Group entered into cash flow hedges of 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 arises during the half year requiring recognition through profit or loss. A net unrealised gain of $0.367M (December 2015: ($0.875M) loss) relating to the valuation of hedging instruments at 31 December 2016 was included in Other Comprehensive Income.

The Group has entered into forward foreign currency contracts to sell US$35.278m and buy AU$ at a weighted average exchange rate of 0.7439 which has a fair value of $1.798m.

The interest rate swap agreement entered into for a notional amount of US$19.028m 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 31 December 2016 was a liability of $0.029m.

(ii) Embedded derivatives – L88

During the half year ended 31 December 2016, the leucoxene 88 ("L88") offtake contract with a third party remained in place. The contract contains a yearly price adjustment mechanism.

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

At 31 December 2016, the fair value of the embedded derivative associated with the L88 contract was a net liability of $1.273m (June 2016: $0.265M asset) which comprises of $1.932m of non-current liability and $0.659m other current financial assets.

(e) Borrowings

	31 Dec 16 $'000	30 Jun 16 $'000
Current		
Bank loan	121	161
Insurance premium funding	46	332
Working capital facility	4,284	4,087
Additional working capital facility (i)	22,344	-
Hire purchase	3,423	3,265
Other party settlement	321	615
Other party loan 1	300	600
Other party loan 2	250	50
Other party loan 3 (ii)	444	-
Senior facility	2,764	2,693
	34,297	11,803
Non Current		
Bank loan	564	564
Other party loan 1	5,739	5,760
Other party loan 2	753	952
Other party loan 3 (ii)	560	-
Bridge facility	10,516	10,181
Convertible loan	20,871	19,203
Senior facility	49,060	47,805
Hire purchase	6,993	8,597
	95,056	93,062

(i) Additional working capital facility

On 29 November 2016, the Group amended the 12 November 2014 Facility Agreement with RCF to include an additional working capital facility for US$16m.

The key terms of the additional working capital facility are as follows:

- Interest rate of 10% per annum;
- Secured over the Company's assets for the facility term;
- Repayment within 12 months from facility drawdown.

All other terms and conditions within the Facility Agreement remain the same.

(ii) Other party loan 3

On 4 November 2016, the Group entered into an agreement with a third party to purchase land located in Keysbrook WA. The loan is repayable by the Group in fixed instalments, with a final repayment date of 30 June 2019. Interest is charged at 4.50% per annum.

Note 6: Non-Financial Assets and Liabilities

(a) Inventories

	31 Dec 16 $'000	30 Jun 16 $'000
Heavy mineral concentrate and other intermediate stockpiles - at cost	2,863	1,385
Heavy mineral concentrate and other intermediate stockpiles - at NRV	-	1,827
Finished goods stockpiles - at NRV	5,196	462
Stores & consumables - at cost	604	553
	8,663	4,227

The NRV writedown for the year was $0.813m (June 2016: $0.394m).

Note 7: Equity

(a) Issued capital

(i) Ordinary shares on issue

	31 Dec 16 $'000	30 Jun 16 $'000
210,444,785 (30 June 2016: 203,841,970) ordinary fully paid shares	115,960	114,041

(ii) Movements in ordinary share capital

	No. of Shares	$'000
Issued shares:		
At 1 July 2015	79,030,110	66,604
Shares issued pursuant to a Facility Agreement	13,136,469	4,809
Share placement	8,723,203	3,489
Share placement	66,985,621	26,794
Share placement	31,128,557	12,451
Shares issued pursuant to an Employee Share Trust Plan	4,388,826	1,764
Shares issued in respect of Employee Performance Rights	449,184	-
Share issue costs	-	(1,870)
As at 30 June 2016	203,841,970	114,041
At 1 July 2016	203,841,970	114,041
Shares issued pursuant to a Facility Agreement (i)	6,602,815	1,930
Share issue costs	-	(11)
As at 31 December 2016	210,444,785	115,960

(i) Shares issued pursuant to a Facility Agreement as consideration for interest and commitment fees (refer note 8).

Note 8: Cash Flow Information

During the half-year ended 31 December 2016, the following non cash financing transactions occurred:

- On 6 July 2016, the Company issued 3,793,731 fully paid ordinary shares at an issue price of $0.2570 per share to RCF for payment of interest and commitment fees for the June 2016 quarter, associated with the Keysbrook finance facilities;
- On 7 October 2016, the Company issued 2,809,084 fully paid ordinary shares at an issue price of $0.3397 per share to RCF for payment of interest and commitment fees for the September 2016 quarter, associated with the Keysbrook finance facilities.

Note 9: Contingent Assets and Liabilities

The Directors are not aware of any contingent assets or contingent liabilities as at 31 December 2016.

Note 10: Commitments

(a) Capital commitments

The Group has $3.596m in capital commitments due within one year as at 31 December 2016 (June 2016: $1.892M) in relation to additional infrastructure required for the new mining location.

Note 11: Events Occurring After the Reporting Period

On 9 January 2017, the Company issued 3,515,960 fully paid ordinary shares at an issue price of $0.2878 per share to RCF for payment of interest and commitment fees for the December 2016 quarter, associated with the Keysbrook finance facilities.

DIRECTORS' DECLARATION
For the half year ended 31 December 2016

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 31 December 2016 and of its performance for the half-year ended on that date;

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

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

Dr S Ward

Interim Managing Director

Perth, Western Australia

9 March 2017

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MZI Resources Limited (the Company), which comprises:

- the condensed consolidated statement of financial position as at 31 December 2016
- the condensed consolidated statement of comprehensive income for the half-year then ended
- the condensed consolidated statement of changes in equity for the half-year then ended
- the condensed consolidated statement of cash flows for the half-year then ended
- selected explanatory notes
- the directors' declaration for MZI Resources Limited and its subsidiaries (the consolidated entity).

The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of MZI Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independent auditor's review report to the shareholders of MZI Resources Limited (continued)

Independence

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

Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw your attention to Note 2(b) in the half-year financial report, which indicates that the consolidated entity has net current liabilities of $19.4 million as at 31 December 2016, and the need for consolidated entity to raise additional funding to repay the Additional Working Capital Facility during the next twelve month period. These conditions, along with other matters set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ben Gargett
Partner

Perth
9 March 2017

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