

# MZI Resources Ltd: Annual Report 2016 to Shareholders

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Perth - [MZI Resources Ltd.](#) (the Company) (ASX:MZI) is pleased to provide its 2016 Annual Report to shareholders.

## DIRECTOR'S REPORT

### 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.

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.

To view the full annual report, please visit:  
<http://abnnewswire.net/lnk/MGCZ62GJ>

#### **About MZI Resources Ltd:**

[MZI Resources Ltd.](#) (ASX:MZI) is a mineral sands producer focused on the high value minerals of zircon and leucoxene, and owns the newly commissioned Keysbrook Mineral Sands Mine, 70 km south of Perth in Western Australia.

Development of Keysbrook was completed ahead of schedule and within budget in October 2015, and completed its first shipment of zircon concentrate in December 2015. Keysbrook is designed to produce approximately 96,000 tonnes of zircon concentrate and leucoxene annually, with over 85% of all planned production committed under offtake contracts with blue chip international customers.

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