



**mzi**  
resources

ABN 52 077 221 722

## **FINANCIAL REPORT**

**For the year ended 30 June 2014**

## CORPORATE DIRECTORY

### BOARD OF DIRECTORS

Malcolm Randall	Non-Executive Chairman
Peter Gazzard	Technical Director
Keith Vuleta	Finance Director
Chi To (Nathan) Wong	Non-Executive Director

### COMPANY SECRETARIES

Keith Vuleta  
John Traicos

### CHIEF EXECUTIVE OFFICER

Trevor Matthews

### REGISTERED OFFICE

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East Perth, Western Australia 6004

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### SHARE REGISTRY

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

Telephone: +61 8 9323 2000  
Website: [www.computershare.com.au](http://www.computershare.com.au)

### AUDITORS

HLB Mann Judd

### SECURITIES EXCHANGE LISTING

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

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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 2014.

## DIRECTORS

The names of the Directors of the Company in office during the course of the financial year and up to the date of this report are as follows:

Malcolm Randall	Non-Executive Chairman
Peter Gazzard	Technical Director
Keith Vuleta	Finance Director
Chi To (Nathan) Wong	Non-Executive Director

Unless otherwise indicated, all Directors have been in office since the start of the financial year up to the date of this report.

## COMPANY SECRETARIES

The following persons held the position of Company Secretary during the financial year:

Keith Vuleta  
John Traicos

## PRINCIPAL ACTIVITIES

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

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group.

## OPERATING AND FINANCIAL REVIEW

### a) Operating Result

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

CONSOLIDATED	
30-Jun-14	30-Jun-13
\$'000	\$'000
(8,306)	(2,447)

The following non-cash items were included in the Group's current period loss:

	Total \$'000
Depreciation and amortisation	202
Foreign exchange gain	(250)
Rehabilitation - non operating minesites	852
Impairment of assets	683
Share-based payments - employee benefits	154
	<u>1,641</u>

### b) Review of Operations

During the year, the Group continued to advance the development of the Keysbrook Project in Western Australia.

The following items of significance were achieved for the Keysbrook Project, which will be realised upon the final investment decision:

**b) Review of Operations (Continued)**

- US\$42.500m funding package for the Keysbrook Project, subject to meeting all conditions precedent, with Resource Capital Fund VI L.P. ("RCF");
- US\$64.000m project debt facility for the Keysbrook Project, subject to meeting all conditions precedent, with RMB Australia Holdings Limited ("RMB");
- US\$4.500m short-term loan facility to continue work on the Keysbrook Project with RCF;
- GR Engineering Services Limited ("GR Engineering") appointed as preferred construction contractor for the Keysbrook Project and has commenced early stage engineering and design work;
- Transmin ("Transmin") appointed as preferred construction contractor for the Mining Feed Unit ("MFU") for the Keysbrook Project and has commenced early stage engineering and design work; and
- A binding heads of agreement with Tricoastal Mineral (Holdings) Company Ltd covering all the zircon concentrate produced from the Keysbrook Project.

Other corporate achievements:

- \$10.044m equity raisings successfully settled; and
- Settlement reached on legal action against the Stirling Group of companies.

**Corporate**

The Group announced in early October 2013 that it had successfully negotiated a US\$41.500m funding package with RCF for the development of the Keysbrook Project. In April 2014 a further US\$1.000m was included in this funding package, taking the total funding package to US\$42.5m. This funding package contains certain conditions to drawdown including shareholder and Foreign Investment Review Board approval. Shareholder approval was obtained on 27 June 2014 and subsequent to year end, Foreign Investment Review Board approval was obtained.

Further support has been provided by RCF in the form of a short-term loan facility of US\$4.500m. This short-term loan facility was provided to ensure the Group had sufficient funds to continue early stage engineering, design work and other activities. This short-term loan facility has an interest rate of 10% per annum and is to be repaid subsequent to year end using proceeds from the anticipated drawdown of funds from RCF funding package. US\$1.000m was repaid in MZI shares following shareholder approval on 27 June 2014.

The Group announced in April 2014, that it had secured approximately US\$64 million in project debt facilities for its development ready Keysbrook Project, paving the way for construction to commence in late 2014, with first production scheduled for the fourth quarter of calendar year 2015.

In September 2013, the Company announced that it had reached agreement to settle its legal action against Stirling Zircon Pty Ltd and Stirling Resources Limited in respect of certain tenements on the Tiwi Islands and in the Northern Territory and a disagreement with DCM DECOMetal. This settlement was subsequently approved by shareholders at a General Meeting held on 22 October 2013, allowing for finalisation of these matters. All tenements, the subject of the dispute, have now been successfully transferred to MZI.

During the year, the Company raised \$10.044m from equity raisings. RCF contributed \$4.790m through two placements in July and November 2013. \$2.044m was raised through a Share Purchase Plan and the remaining \$3.210m through placements with Argonaut Capital as Lead Manager with Foster Stockbroking as Co-Manager, in November 2013.

**Keysbrook**

In October 2013, the Group appointed GR Engineering as the preferred engineering, procurement and construction ("EPC") contractor for the Keysbrook Project.

The scope of work to be undertaken by GR Engineering has an agreed fixed price, lump sum cost to construct and commission the Keysbrook Project of \$54.6 million. This work includes the construction of the Keysbrook wet concentration plant and associated infrastructure and the expansion and upgrades to Doral Pty Ltd's ("Doral") mineral separation plant ("MSP").

An agreement has been signed with Transmin to construct the MFU for the Keysbrook Project. The MFU is a mobile plant that provides screened ore in a slurry to the wet concentrating plant and comprises a dump hopper, conveyor, water sprays, trommel screen and sump.

Following a competitive tender process, the mining strategy remains owner mining. A further competitive tender process was conducted for the provision of logistics services, with Giacci Bros Pty Ltd selected as contractor.

The Group agreed contract terms with Western Power for the construction of power infrastructure to the Keysbrook Project as well as a power upgrade to Doral's MSP. The contract provides for the construction of 18 kilometres of 22kv, mainly underground, power lines from the Pinjarra substation to the Keysbrook mine site.

**b) Review of Operations (Continued)**

Following application, the term of the development and extractive industry licence approvals in respect to the Keysbrook Project have been extended by both the Shire of Murray and the Shire of Serpentine Jarrahdale to 29 June 2023, to align with other approvals from the West Australian Planning Commission, an extension of approximately 39 months from the current approvals term. The extension of the term of the approvals provides sufficient time for the Company to carry out its mining activities during the current proposed mine life of the Keysbrook Project.

The Group also signed a binding heads of agreement with Tricoastal Mineral (Holdings) Company, the largest mineral sands processor in China, covering all the zircon concentrate produced from its Keysbrook Project for a period of five years with an option to extend the sales agreement for a further five years.

Combined with the existing Leucoxene L70 offtake agreement with DuPont, the zircon concentrate agreement means approximately 60% of the Keysbrook Project's forecast annual production and 45% to 50% of forecast annual revenue is now covered under 5-year sales agreements.

The Group continued offtake negotiations with a number of prospective customers for its Leucoxene L88 product.

**Tiwi Islands**

During the year, activity centred on consolidating plant and equipment at the site, collecting surplus and scrap materials to be disposed of and the clean-up of the mine and camp site in preparation for demobilisation and site rehabilitation.

Equipment suitable for use at the Keysbrook Project has been stored ready for transport. The Company entered into a sale agreement with a third party to purchase the plant and equipment deemed in excess of future requirements. This sale was settled in June 2014.

**Exploration**

Greenfields exploration was minimised in both Western Australia and the Northern Territory to allow resources to be concentrated on the Keysbrook Project.

A drilling and assay programme to provide additional quality assurance and quality control information for the Keysbrook Project Mineral Resource was completed during the December 2013 quarter and provided confirmatory information in respect of the Keysbrook Project resource.

A bulk sample program involving the excavation of 23 costeans and pits was completed to provide the Group an opportunity to inspect the base of the deposit across the mining area to assist in mine planning, as well as providing a series of bulk samples from each planned quarter of mining during the 5.5-year project life (based on Ore Reserves). The samples have been assayed to provide further supporting data for mineralogy and have been used in further confirmatory metallurgical test work programs. The metallurgical test work program confirmed the flow sheet designs, the planned concentrate and final product recoveries for the Keysbrook Project.

**c) 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:

- Completion of funding conditions to enable funds drawdown to commence construction of the mine, plant and infrastructure at Keysbrook;
- Assessment of the Kilimiraka project will continue together with the progression of environmental approvals; and
- Continued mineral sands exploration and assessment of other development opportunities in Keysbrook and surrounding region.

The Group is committed to pursuing its strategy to develop the Keysbrook Project into a producing mine. As part of that strategy, numerous key activities including project financing, completion of remaining offtake agreements, construction and operations will be pursued to complement the key milestones already achieved which include completion of the processing agreement, port access, offtake for Leucoxene 70 and zircon, project finance due diligence and land access.

The next financial year is expected to see the Group complete the Keysbrook Project financing documentation and other conditions to enable the MZI Board make the final investment decision for the development of the Keysbrook Project. This will see the commencement of construction and mining for the Keysbrook Project.

### EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

On 1 July 2014, the Company announced that Resource Capital Fund VI L.P. ("RCF") received approval from the Foreign Investment Review Board for the Keysbrook Project funding package announced on 2 October 2013.

On 1 July 2014, the Company announced that RCF extended the short-term loan facility repayment date from 30 June 2014 to 14 July 2014 with no changes to the interest rate or security provided previously. On 16 July 2014, the Company announced that this repayment date was further extended to 31 July 2014. Further extensions for the repayment date continue to be granted by RCF.

On 4 July 2014, the Company announced that pursuant to its pro rata non-renounceable rights offer of one new unlisted option for every 5 fully paid ordinary shares held for consideration of \$0.001, announced on 30 May 2014, 133,634,910 new unlisted options were issued and holding statements despatched. The options have an exercise price of \$0.02 and expire on 30 June 2015.

On 26 August 2014, the Company announced a further increase to the short-term loan facility provided by RCF by US\$3.000m on the same terms and conditions as the current short-term loan facility and a further extension of the repayment date to 30 September 2014. The US\$3.000m increase and extension fee of US\$0.105m will be repaid partially by the issue of 98,660,656 fully paid ordinary shares in MZI at \$0.07. This will bring RCF's shareholding in MZI to 19.9%.

On 3 September 2014, the Company announced that the Keysbrook Project funding packages provided by RCF and RMB Australia Holdings Limited ("RMB") have been restructured. The key points are as follows:

- The senior debt facility provided by RMB has been reduced from US\$50.000m to US\$37.500m;
- The bank guarantee facility provided by RMB has been reduced from A\$12.124m to A\$11.500m;
- Foreign exchange hedging facilities will now be provided by RMB;
- Bridge finance facilities provided by RCF have been increased by a further net US\$11.500m; and
- A contingent US\$4.000m construction cost overrun facility to be provided by RCF.

Overall the revised funding package represents an increase in committed funding from US\$106.500m to US\$109.500m, with the difference being due largely to the inclusion of the contingent cost overrun facility.

### 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 nil breaches by the Group of any environmental law during the financial year ended 30 June 2014.

**INFORMATION ON DIRECTORS AND COMPANY SECRETARIES**

The names and particular of the Directors of the Company are:

<b>Malcolm Randall</b>	<b>Non-Executive Chairman</b>
Qualifications:	Dip. Applied Chem., MAICD
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 twenty 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:	8,000,000 ordinary shares 5,000,000 unlisted options (\$0.04, 31 December 2015) 5,000,000 unlisted options (\$0.02, 27 June 2017) 1,750,000 unlisted options (\$0.02, 30 June 2015)
Directorships held in other listed entities in the last three years:	Current Director of Iron Ore Holdings Ltd, Thundelarra Exploration Ltd, Royal Resources Ltd and Summit Resources Ltd.  Mr Randall has not held Directorships in any other listed company in the last three years.
<b>Peter Gazzard</b>	<b>Technical Director</b>
Qualifications:	B.Sc. (Hons), Grad. Dip. Mgt.
Experience:	Mr Gazzard has more than thirty years' experience in the mineral sands industry in Western Australia, in both technical and managerial roles with Cable Sands as well as Iluka Resources and its predecessor companies. Mr Gazzard has been involved in the design of mineral sands mines and processing plants, project commissioning and operations management. Mr Gazzard has implemented two mineral sands mine start-ups in Western Australia. He has also managed mineral sands mines, separation plants and synthetic rutile plants.
Interest in Shares and Options at the date of this report:	9,547,865 ordinary shares 25,211,666 rights over shares 5,000,000 unlisted options (\$0.04, 31 December 2015) 1,909,590 unlisted options (\$0.02, 30 June 2015)
Directorships held in other listed entities in the last three years:	Mr Gazzard has not held Directorships in any other listed company in the last three years.



**INFORMATION ON DIRECTORS AND COMPANY SECRETARIES (Continued)**

<b>Keith Vuleta</b>	<b>Finance Director &amp; Company Secretary</b>
Qualifications:	B.Bus, CA, MAICD
Experience:	Mr Vuleta trained with Ernst & Young and has been a Chartered Accountant for over twenty five years. He has held positions as Finance Director, Chief Financial Officer and Company Secretary for public companies in the mining, construction engineering and financial services industries. He is principally experienced in areas of finance, system policies and controls, financial reporting, risk management and compliance. Mr Vuleta is currently Chairman of the Polytechnic of Western Australia.
Interest in Shares and Options at the date of this report:	3,157,408 ordinary shares 25,211,666 rights over shares 5,000,000 unlisted options (\$0.04, 31 December 2015) 631,490 unlisted options (\$0.02, 30 June 2015)
Directorships held in other listed entities in the last three years:	Previous Directorships: Redbank Copper Limited (resigned 18 November 2011), Swan Gold Mining Limited (resigned 25 July 2012).
<b>Chi To (Nathan) Wong</b>	<b>Non-Executive Director</b>
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 on the Board.
Interest in Shares and Options at the date of this report:	114,824,075 ordinary shares 5,000,000 unlisted options (\$0.04, 31 December 2015) 3,000,000 unlisted options (\$0.02, 27 June 2017)
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.
<b>John Traicos</b>	<b>Company Secretary</b>
Qualifications:	BA, BL, LLB
Experience:	Mr Traicos has more than 30 years' experience in legal and corporate affairs in Australia and South 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.



## 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 parent company.

### Remuneration Policy

MZI's remuneration policy encompasses the total value employees 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 and the Chief Executive Officer that ensuring the employees of the Company are competitively paid and have access to competitive benefits is critical to MZI's success. With a particular emphasis on paying above the average for above average performance through the broad-based use of short and long-term incentive programs, the Board of Directors will align employees' incentive payments with the success of the Company and value to its shareholders.

Overall remuneration policies are determined by the Board of Directors and are adapted to reflect competitive market and business conditions. Within this framework the Board of Directors and Chief Executive Officer consider remuneration policies and practices and determine specific remuneration packages and other terms of employment for employees. Remuneration and other terms of employment are reviewed annually by the Board of Directors and Chief Executive Officer having regard to performance, relevant comparative information and expert advice.

### Principles used to determine the nature and amount of remuneration

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

Malcolm Randall	Non-Executive Chairman
Peter Gazzard	Technical Director
Keith Vuleta	Finance Director and Company Secretary
Chi To (Nathan) Wong	Non-Executive Director
Trevor Matthews	Chief Executive Officer
Jamie Wright	Chief Development Officer

MZI's remuneration policy for Executive Directors and senior management 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 Executive Directors and senior managers capable of managing the Group's operations. Executive Directors and senior management receive a base remuneration which is market-related.

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

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

### 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 \$500,000 per annum. The Board of Directors determines the actual payments to Directors. Actual payments to individual Directors 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.

Non-Executive Directors may be entitled to statutory superannuation benefits. At this stage of MZI's development, Non-Executive Directors may be entitled to participate in equity-based remuneration schemes. Shareholders must approve the framework for any equity-based compensation 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 June 2014 and August 2012.

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

**REMUNERATION REPORT – Audited (Continued)**

**Executive Director and senior manager remuneration**

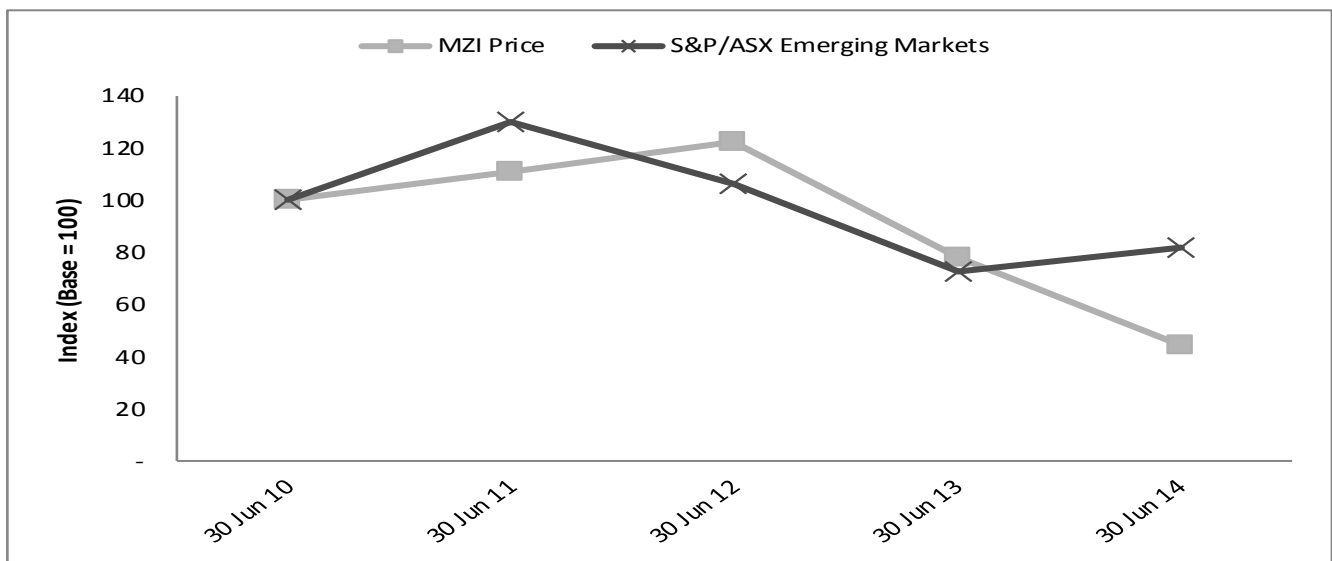
The structure of remuneration packages for employees comprises:

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

The Directors consider the principles of the remuneration of KMP have been successful in providing positive company performance. The principles have provided the desired incentive and are expected to continue to provide such incentive. Whilst the Company is still in the early formative stages of its development, it is difficult to determine the effect on shareholder wealth. Whilst it may be expected that earnings may be in a loss position in these early stages, the Company is planning to achieve positive earnings following the development of Keysbrook.

During the financial year, the Company's share price has ranged between \$0.008 and \$0.021. Consideration of the Group's earnings will be more relevant as the Company matures.

The chart below compares, assuming an initial investment of \$100, the yearly percentage change in cumulative total shareholder return on the Company's ordinary shares against the cumulative total shareholder return of the S&P/ASX emerging markets Index for the Company's four most recently completed financial years.



	30 Jun 10	30 Jun 11	30 Jun 12	30 Jun 13	30 Jun 14
<b>The Company</b>	\$100.00	\$111.11	\$122.22	\$77.78	\$44.44
<b>S&amp;P/ASX Emerging Markets Index</b>	\$100.00	\$130.24	\$106.00	\$72.58	\$82.19
<b>Loss per share</b>	(\$0.012)	(\$0.014)	(\$0.05)	(\$0.140)	(\$0.360)

**Share-based payments**

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

The primary purposes 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. These 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:

## REMUNERATION REPORT – Audited (Continued)

	Series 5	Series 6	Series 7	Series 10
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%
Expected volatility (%)	80.00%	80.00%	80.00%	99.40%
Risk-free interest rate (%)	4.50%	4.50%	4.50%	2.70%
Expected life of options (years)	3.129	4.132	3.633	3.000
Exercise price (cents)	4.0	7.5	4.0	2.0
Grant date share price (cents)	2.0	2.0	2.0	0.9
Grant Date	27 Apr 2012	27 Apr 2012	31 Aug 2012	27 Jun 2014
Expiry Date	30 Jun 2015	30 Jun 2016	31 Dec 2015	27 Jun 2017
Number	5,000,000	5,000,000	20,000,000	8,000,000
Fair value at grant date (cents)	0.0080	0.0070	0.0087	0.0042

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.

Details of current options issued to Key Management Personnel:

- a) 10,000,000 options granted to Mr T Matthews on 27 April 2012. These options comprise:
- 5,000,000 options at \$0.04 per option, which vest on commencement of employment, 14 May 2012, and expire on 30 June 2015 (Series 5); and
  - 5,000,000 options at \$0.075 per option, which vest after 12 months of employment and expire on 30 June 2016 (Series 6).

As at 30 June 2014, all options are fully vested.

- b) 5,000,000 options each, total 20,000,000, at \$0.04 were granted to Mr P Gazzard, Mr K Vuleta, Mr M Randall and Mr C Wong on 31 August 2012. The options vest immediately and expire 31 December 2015 (Series 7).

As at 30 June 2014, these options are fully vested.

- c) 5,000,000 options at \$0.02 granted to Mr M Randall on 27 June 2014. The options vest immediately and expire on 27 June 2017 (Series 10).

As at 30 June 2014, these options are fully vested.

- d) 3,000,000 options at \$0.02 granted to Mr C Wong on 27 June 2014. The options vest immediately and expire on 27 June 2017 (Series 10).

As at 30 June 2014, these options are fully vested.

#### *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. Any unit not exercised before the 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 unit holders 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.

Details of current rights over shares issued to Key Management Personnel:

- a) 52,065,750 units granted to Mr T Matthews on 25 February 2014. These units were issued at an issue price of A\$0.012 and have the following non-market based performance conditions:
- 11,390,667 vest upon a positive Final Investment Decision ("FID") in the Keysbrook Project by 30 June 2014;
  - 20,337,542 vest upon a positive FID in the Keysbrook Project by 25 February 2016; and
  - 20,337,542 vest upon first shipment of product from the Keysbrook Project by 25 February 2016.

**REMUNERATION REPORT – Audited (Continued)**

- a) 25,211,666 units granted each, total 50,423,332, to Mr P Gazzard and Mr K Vuleta on 27 June 2014. These units were issued at an issue price of A\$0.009 and have the following non-market based performance conditions:
- 9,050,333 units each, total 18,100,666, vest upon a positive FID in the Keysbrook Project by 30 June 2014;
  - 8,080,667 units each, total 16,161,333, vest upon a positive FID in the Keysbrook Project by 27 June 2016; and
  - 8,080,667 units each, total 16,161,333, vest upon first shipment of product from the Keysbrook Project by 27 June 2016.
- b) 22,894,917 units granted to Mr J Wright on 25 February 2014. These units were issued at an issue price of A\$0.012 and have the following non-market based performance conditions:
- 8,218,667 vest upon a positive FID in the Keysbrook Project by 30 June 2014;
  - 7,338,125 vest upon a positive FID in the Keysbrook Project by 25 February 2016; and
  - 7,338,125 vest upon first shipment of product from the Keysbrook Project by 25 February 2016.

As at 30 June 2014, the units due to vest upon a positive FID in the Keysbrook Project by 30 June 2014 were forfeited due to the non-market based performance condition not being met and no other units have vested.

The terms of employment for Executive Directors and specified senior management are formalised in service agreements. Major provisions of the agreements relating to duration and termination as at 30 June 2014 are set out below:

Name	Base salary	Contract duration	Notice period Company	Notice period Employee	Termination provision
T Matthews	\$450,551 pa	4 years	2 months for inadequate performance or 6 months	3 months	Accrued leave entitlements
P Gazzard	\$348,624 pa	4 years	2 months for inadequate performance or 6 months	3 months	Accrued leave entitlements
K Vuleta	\$355,872 pa	4 years	2 months for inadequate performance or 6 months	3 months	Accrued leave entitlements
J Wright	\$318,318 pa	n/a	6 months	3 months	Accrued leave entitlements

**Use of remuneration consultants**

To ensure the Board of Directors is fully informed when making remuneration decisions, it seeks external remuneration advice and market related information.

In the financial year ended 30 June 2014, the Board of Directors used Harrier HR Consulting Services (“Harrier”) and subscribed to AusRem Advisory remuneration database to provide expert advice and information.

In order to ensure the Board of Directors is provided with advice, free from undue influence by members of the KMP to whom the recommendations may relate, the engagement of Harrier by the Board of Directors was based on an agreed set of procedures that was followed by Harrier, the Board of Directors and members of the KMP.

During the year ended 30 June 2014, Harrier provided the Company with services to ensure that remuneration policies and structures are fair, competitive and aligned with the long-term interests of the Company.

The fees payable to remuneration consultants for remuneration advice and other human resource related services for the year ended 30 June 2014 was \$110,633.

**Other transactions with KMP and their related parties**

*Details and terms and conditions of other transactions with key management personnel and their related parties:*

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

**REMUNERATION REPORT – Audited (Continued)**

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 2014 (2013: US\$0.457m). This is now the subject of a binding term sheet.

**Details of remuneration**

The following tables disclose details of the nature and amount of each element of the remuneration of each Director of MZI and the Group and each of the KMP for the year ended 30 June 2014.

Details of remuneration provided to key management personnel are as follows:

2014	Short-term benefits		Post-employment benefits	Share-based payments		
	Salary & fees \$	Non-monetary benefits \$	Super-annuation \$	Options \$	Rights over shares \$	Performance Related %
Executive Directors						
P Gazzard	348,624	5,175	32,248	-	597	0%
K Vuleta	355,872	5,175	25,000	-	597	0%
Non-Executive Directors						
M Randall	90,000	-	8,325	20,942	-	18%
C Wong	87,500	-	-	12,565	-	13%
Other Key Management Personnel						
T Matthews	450,551	5,175	30,551	-	81,573	14%
J Wright	318,318	5,175	25,000	-	29,433	8%
Total	1,650,865	20,700	121,124	33,507	112,200	-

2013	Short-term benefits		Post-employment benefits	Share-based payments	
	Salary & fees \$	Non-monetary benefits \$	Super-annuation \$	Options \$	Performance Related %
Executive Directors					
P Gazzard	299,312	11,128	29,880	43,425	11%
K Vuleta	299,312	3,604	26,938	43,425	12%
Non-Executive Directors					
M Randall	87,000	-	7,830	43,425	31%
C Wong	59,000	-	-	43,425	42%
Other Key Management Personnel					
T Matthews	354,030	-	31,863	34,200	8%
J Wright	354,250	-	31,883	-	-
Total	1,452,904	14,732	128,394	207,900	

**REMUNERATION REPORT – Audited (Continued)**

Details of option holdings provided to key management personnel as share-based compensation are as follows:

2014	Options type	Balance at the start of the year No.	Granted as remuneration No.	Options exercised No.	Net change other No.	Balance at the end of the year No.	Vested and exercisable at the end of the year No.	Fair value per options at award date \$	Total fair value of options at award date \$	Fair value of options exercised during the year \$	Fair value of options lapsed during the year \$
<b>Executive Directors</b>											
P Gazzard	Unlisted	5,000,000	-	-	-	5,000,000	5,000,000	-	-	-	-
K Vuleta	Unlisted	5,000,000	-	-	-	5,000,000	5,000,000	-	-	-	-
<b>Non-Executive Directors</b>											
M Randall	Unlisted	5,000,000	5,000,000	-	-	10,000,000	10,000,000	\$0.0042	20,942	-	-
C Wong	Unlisted	5,000,000	3,000,000	-	-	8,000,000	8,000,000	\$0.0042	12,565	-	-
<b>Other KMP</b>											
T Matthews	Unlisted	10,000,000	-	-	-	10,000,000	10,000,000	-	-	-	-
J Wright	-	-	-	-	-	-	-	-	-	-	-

**REMUNERATION REPORT – Audited (Continued)**

Details of option holdings provided to key management personnel as share-based compensation are as follows (Continued):

2013	Options type	Balance at the start of the year No.	Granted as remuneration No.	Options exercised No.	Net change other (i) No.	Balance at the end of the year No.	Vested and exercisable at the end of the year No.	Fair value per options at award date \$	Total fair value of options at award date \$	Fair value of options exercised during the year \$	Fair value of options lapsed during the year \$
<b>Executive Directors</b>											
P Gazzard	Unlisted	3,500,000	5,000,000	-	(3,500,000)	5,000,000	5,000,000	\$0.0087	43,425	-	(10,290)
K Vuleta	Unlisted	2,500,000	5,000,000	-	(2,500,000)	5,000,000	5,000,000	\$0.0087	43,425	-	(7,350)
<b>Non-Executive Directors</b>											
M Randall	Unlisted	5,000,000	5,000,000	-	(5,000,000)	5,000,000	5,000,000	\$0.0087	43,425	-	(14,700)
C Wong	Unlisted	-	5,000,000	-	-	5,000,000	5,000,000	\$0.0087	43,425	-	-
<b>Other KMP</b>											
T Matthews	Unlisted	10,000,000	-	-	-	10,000,000	10,000,000	-	-	-	-
J Wright	-	-	-	-	-	-	-	-	-	-	-

(i) Refers to options lapsed during the year ended 30 June 2013.



**REMUNERATION REPORT – Audited (Continued)**

Details of rights over shares provided to key management personnel as share-based compensation are as follows (Continued):

2014	Balance at the start of the year No.	Granted as remuneration No.	Rights of shares exercised No.	Net change other (i) No.	Balance at the end of the year No.	Vested and exercisable at the end of the year No.	Fair value per rights over shares at award date \$	Total fair value of rights over shares at award date \$	Fair value of rights over shares exercised during the year \$	Fair value of rights over shares forfeited during the year \$
<b>Executive Directors</b>										
P Gazzard	-	25,211,666	-	(9,050,333)	16,161,333	-	\$0.0090	226,905	-	(81,453)
K Vuleta	-	25,211,666	-	(9,050,333)	16,161,333	-	\$0.0090	226,905	-	(81,453)
<b>Non-Executive Directors</b>										
M Randall	-	-	-	-	-	-	-	-	-	-
C Wong	-	-	-	-	-	-	-	-	-	-
<b>Other KMP</b>										
T Matthews	-	52,065,750	-	(11,390,667)	40,675,083	-	\$0.0120	624,789	-	(136,688)
J Wright	-	22,894,917	-	(8,218,667)	14,676,250	-	\$0.0120	274,739	-	(98,624)

(i) Net change other refers to rights over shares forfeited during the year ended 30 June 2014.

## DIRECTORS' REPORT (Continued)

### REMUNERATION REPORT – Audited (Continued)

Details of options not granted as compensation of key management personnel are as follows:

2014	Options type	Balance at the start of the year	On the exercise of options	Net change other (i)	Balance at the end of the year
<b>Executive Directors</b>					
P Gazzard	-	-	-	-	-
K Vuleta	-	-	-	-	-
<b>Non-Executive Directors</b>					
M Randall	Listed	500,000	-	(500,000)	-
C Wong	-	-	-	-	-
<b>Other KMP</b>					
T Matthews	Listed	17,000,000	-	(17,000,000)	-
J Wright	-	-	-	-	-

2013	Options type	Balance at the start of the year	On the exercise of options	Net change other	Balance at the end of the year
<b>Executive Directors</b>					
P Gazzard	-	-	-	-	-
K Vuleta	-	-	-	-	-
<b>Non-Executive Directors</b>					
M Randall	Listed	500,000	-	-	500,000
C Wong (ii)	Unlisted	36,000,000	-	(36,000,000)	-
<b>Other KMP</b>					
T Matthews (iii)	Listed	16,105,000	-	895,000	17,000,000
J Wright	-	-	-	-	-

- (i) Net change other refers to listed options purchased on market which lapsed during the year ended 30 June 2014;
- (ii) Mr C Wong options balance of 36,000,000 as at 1 July 2012 relate to options granted to Tricoastal Minerals (Holdings) Company Limited, a company to which Mr C Wong is a related party. These options lapsed during the year ended 30 June 2013; and
- (iii) Net change other refers to listed options purchased on market.

## DIRECTORS' REPORT (Continued)

### REMUNERATION REPORT – Audited (Continued)

Details of shareholdings of key management personnel are as follows:

2014	Balance at the start of the year	On the exercise of options	Net change other (i)	Balance at the end of the year
<b>Executive Directors</b>				
P Gazzard	7,160,992	-	2,386,873	9,547,865
K Vuleta	2,000,000	-	1,157,408	3,157,408
<b>Non-Executive Directors</b>				
M Randall	5,700,000	-	1,550,000	7,250,000
C Wong	113,666,667	-	1,157,408	114,824,075
<b>Other KMP</b>				
T Matthews	5,503,412	-	357,408	5,860,820
J Wright	-	-	-	-

2013	Balance at the start of the year	On the exercise of options	Net change other (i)	Balance at the end of the year
<b>Executive Directors</b>				
P Gazzard	7,160,992	-	-	7,160,992
K Vuleta	2,000,000	-	-	2,000,000
<b>Non-Executive Directors</b>				
M Randall	5,562,328	-	137,672	5,700,000
C Wong	113,666,667	-	-	113,666,667
<b>Other KMP</b>				
T Matthews	5,103,027	-	400,385	5,503,412
J Wright	-	-	-	-

- (i) Net change other refers to shares purchased on market and shares issued pursuant to a disclosure document.

**END OF REMUNERATION REPORT**

## DIRECTORS' REPORT (Continued)

### DIRECTORS' MEETINGS

The number of meetings of the Board of Directors held during the year and the numbers of meetings attended by each Director were as follows:

Board Member	Number held whilst in office	Number attended
M Randall	13	13
P Gazzard	13	13
K Vuleta	13	13
CT Wong	13	12

### OPTIONS GRANTED OVER UNISSUED SHARES

At the date of this report, 305,634,910 ordinary fully paid shares, which are subject to options, were unissued. The terms of these options are as follows:

	Number
- exercisable at \$0.04 each on or before 31 December 2015	20,000,000
- exercisable at \$0.04 each on or before 30 June 2015	5,000,000
- exercisable at \$0.075 each on or before 30 June 2016	5,000,000
- exercisable at \$0.02 each on or before 3 July 2016	4,500,000
- exercisable at \$0.016 each on or before 5 December 2016	50,000,000
- exercisable at \$0.02 each on or before 27 June 2017	8,000,000
- exercisable at \$0.01648 each on or before 2 July 2017	79,500,000
- exercisable at \$0.02 each on or before 20 June 2015	133,634,910
Total	305,634,910

No shares have been issued by the Company since the end of the financial year as a result of the exercise of an option.

### NON AUDIT SERVICES

Non-audit services were provided by the entity's auditor, HLB Mann Judd. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

### 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 brought 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.

### 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 98/0100. The Company is an entity to which this class order applies.

### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under Section 307C of the *Corporations Act 2001* is included on page 20 of this financial report.

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

A handwritten signature in dark ink, appearing to read 'M Randall', with a stylized flourish at the end.

M Randall  
*Chairman*

Perth, Western Australia  
16 September 2014



### AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of MZI Resources Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Perth, Western Australia  
16 September 2014

A handwritten signature in blue ink, appearing to read 'D I Buckley', is written over a light blue circular stamp.

D I Buckley  
Partner

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Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of HLB International, a worldwide organisation of accounting firms and business advisers.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Continuing Operations</b>			
Revenue from sales		-	28,787
Costs of production	3	-	(16,242)
<b>Gross Profit before Depreciation, Amortisation and Other Operating Costs</b>		-	12,545
Depreciation and amortisation	3	(202)	(5,203)
Other operating costs	3	(715)	(2,150)
<b>Gross (Loss)/Profit</b>		(917)	5,192
Other revenue	3	38	86
Other income	3	263	-
Corporate expenses	3	(5,092)	(7,229)
Other expenses	3	(1,535)	(373)
<b>Loss before Finance and Tax</b>		(7,243)	(2,324)
Finance expenses	3	(1,063)	(123)
<b>Loss before Tax</b>		(8,306)	(2,447)
Tax expense		-	-
<b>Loss after Tax from Continuing Operations</b>		(8,306)	(2,447)
<b>Attributable to:</b>			
Equity holders of the parent		(8,306)	(2,447)
Other comprehensive income:			
<b>Total Comprehensive Loss for the Year</b>		<b>(8,306)</b>	<b>(2,447)</b>
<b>Attributable to:</b>			
Equity holders of the parent		(8,306)	(2,447)
Basic and diluted loss per share (cents per share)	20	(0.36)	(0.14)

*The accompanying notes form part of these financial statements.*



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	5	1,106	130
Trade and other receivables	6	-	3,009
Inventories	7	-	178
Other current assets	8	745	127
Assets classified as held for sale	9	-	682
<b>Total Current Assets</b>		1,851	4,126
<b>Non-Current Assets</b>			
Trade and other receivables	6	673	690
Property, plant and equipment	10	3,863	3,999
Exploration and evaluation expenditure	11	1,488	1,588
Mine development expenditure	12	24,141	16,139
<b>Total Non-Current Assets</b>		30,165	22,416
<b>Total Assets</b>		32,016	26,542
<b>Current Liabilities</b>			
Trade and other payables	13	4,485	6,166
Provisions	14	1,225	316
Other financial liabilities	15	1,000	-
Borrowings	16	5,734	871
<b>Total Current Liabilities</b>		12,444	7,353
<b>Non-Current Liabilities</b>			
Trade and other payables	13	417	-
Provisions	14	127	64
Other financial liabilities	15	480	-
Borrowings	16	69	1,000
<b>Total Non-Current Liabilities</b>		1,093	1,064
<b>Total Liabilities</b>		13,537	8,417
<b>Net Assets</b>		<b>18,479</b>	<b>18,125</b>
<b>Equity</b>			
Share capital	17	63,715	54,413
Reserves	18	735	1,377
Accumulated losses		(45,971)	(37,665)
<b>Total Equity</b>		<b>18,479</b>	<b>18,125</b>

*The accompanying notes form part of these financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 30 June 2014

	Ordinary Shares \$'000	Employee Share Trust Reserve \$'000	Share-based Payments Reserve \$'000	Accumulated Losses \$'000	Total \$'000
<b>Balance at 1 July 2012</b>	51,306	-	1,044	(35,218)	17,132
Loss for the year	-	-	-	(2,447)	(2,447)
Other comprehensive income	-	-	-	-	-
<b>Total Comprehensive Loss for the Year</b>	-	-	-	(2,447)	(2,447)
<b>Transactions with Owners in their Capacity as Owners:</b>					
Shares issued	107	-	-	-	107
Unissued shares	3,000	-	-	-	3,000
Recognition of share-based payments	-	-	333	-	333
<b>Balance at 30 June 2013</b>	<b>54,413</b>	-	<b>1,377</b>	<b>(37,665)</b>	<b>18,125</b>
Loss for the year	-	-	-	(8,306)	(8,306)
Other comprehensive income	-	-	-	-	-
<b>Total Comprehensive Loss for the Year</b>	-	-	-	(8,306)	(8,306)
<b>Transactions with Owners in their Capacity as Owners:</b>					
Shares issued (net of costs)	7,797	-	-	-	7,797
Recognition of treasury shares	1,505	(1,505)	-	-	-
Recognition of share-based payments	-	111	752	-	863
<b>Balance at 30 June 2014</b>	<b>63,715</b>	<b>(1,394)</b>	<b>2,129</b>	<b>(45,971)</b>	<b>18,479</b>

*The accompanying notes form part of these financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		-	28,644
Payments to suppliers and employees		(6,958)	(21,606)
Interest received		38	86
Finance costs		(109)	(123)
<b>Net Cash Flows from Operating Activities</b>	<b>26</b>	<u>(7,029)</u>	<u>7,001</u>
<b>Cash Flows from Investing Activities</b>			
Receipt of/(payments for) security deposits		17	(77)
Payments for exploration and evaluation		(511)	(405)
Payments for development		(6,476)	(4,632)
Payments for property, plant and equipment		(129)	(2,391)
Proceeds from sale of property, plant and equipment		988	5
<b>Net Cash Flows from Investing Activities</b>		<u>(6,111)</u>	<u>(7,500)</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares and other securities		10,049	107
Share issue costs		(413)	-
Proceeds from borrowings		5,538	135
Repayment of borrowings		(630)	(5,532)
Borrowing costs		(428)	-
<b>Net Cash Flows from Financing Activities</b>		<u>14,116</u>	<u>(5,290)</u>
Net increase/(decrease) in cash and cash equivalents		976	(5,789)
Cash and cash equivalents at the beginning of the year		130	5,919
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>5</b>	<u><u>1,106</u></u>	<u><u>130</u></u>

*The accompanying notes form part of these financial statements.*

**NOTE 1: CORPORATE INFORMATION**

The consolidated financial report of MZI Resources Ltd for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 16 September 2014.

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 is incorporated and domiciled in Australia. The registered office and principal place of business of the Company is Level 2, 100 Royal Street, East Perth, WA 6004.

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

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of preparation**

This financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards, and Interpretations and complies with other requirements of law. The financial statements are prepared on a historical cost basis. The financial statements have been prepared under the going concern basis as discussed further in Note 30.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (“AIFRS”). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (“IFRS”). The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$’000) unless otherwise stated. When required by Australian Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(b) New accounting standards and interpretations**

In the year ended 30 June 2014, 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.

**(c) Basis of consolidation**

The consolidated financial statements comprise the separate financial statements of MZI Resources Ltd and its subsidiaries (including structured entities) as at 30 June each year (the “Group”). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group’s voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date the Group gains control until the date the Group ceases to control the subsidiary.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary;
- De-recognises the carrying amount of any non-controlling interests;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss of retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

**(d) Foreign currency translation**

**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.

**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.

**Translation of financial reports of foreign operations**

The assets and liabilities of subsidiary companies are translated to the Group presentation currency at the exchange rates ruling at balance date. Income and expense items are translated at average exchange rates for the year. Any exchange differences are taken directly to the foreign exchange translation reserve. On disposal of a foreign entity, cumulative deferred exchange differences are recognised in the Consolidated Statement of Comprehensive Income as part of the profit or loss on sale.

**(e) Trade and other receivables**

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.

**(f) Exploration and evaluation expenditure**

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.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Exploration 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 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.

**(g) Provisions**

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. The increase in the provision resulting from the passage of time is recognised in finance costs.

**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 national government bonds, which have terms to maturity approximating the terms of the related liabilities, are used.

**Rehabilitation and site restoration**

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 2(r). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

**(h) 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").

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 balance 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 award 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.

**(i) Revenue recognition**

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:

**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).

**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.

**Insurance claims**

Insurance claims are recognised when it is virtually certain that the economic benefit will flow to the Group and the amount of revenue can be reliably measured.

**(j) Property, plant and equipment**

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 unit of production basis on all plant and equipment. Major depreciation periods are:

Plant and equipment	1-12 years
Motor vehicles	3-5 years
Production assets	unit of production basis

Land represents lots at Keysbrook which the Group has acquired. Once production commences at Keysbrook, the land (less the residual value of the land) will be amortised on a unit of production basis over the estimated economic life of the mine.



**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Disposal**

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.

**(k) Impairment of non-financial assets**

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 to sell 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.

**(l) Non-current assets held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised once they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of the disposal group classified as held for sale are presented separately from the other assets in the Consolidated Statement of Financial Position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Consolidated Statement of Financial Position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Consolidated Statement of Comprehensive Income.

**(m) Taxation**

**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, the 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.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 parent 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.

**Other taxes**

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.

**(n) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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.

**(o) Earnings/Loss per Share**

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.

**(p) Cash and cash equivalents**

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise of cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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.

**(q) 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.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(r) Mine development costs**

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.

**(s) Inventories**

Stores and spares, product on hand and in circuit are stated at the lower of cost and net realisable value. 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.

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

**(t) Interest-bearing loans and borrowings**

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.

**(u) Other financial assets**

**Classification**

The Group classifies its financial assets in the scope of AASB139 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.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transactions costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recognition and derecognition**

Regular purchases and sales of financial assets are recognised on trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Consolidated Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

**Subsequent measurement**

Loans and receivables are carried at amortised cost using the effective interest method.

**Impairment**

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**(v) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

**(w) Leases**

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 so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss.

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.

**(x) Segment Reporting**

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(y) Significant accounting judgements**

In the process of applying the Group's accounting policies, management has made the following significant accounting judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

**Determination of mineral resources and ore reserves**

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, deferred stripping costs 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". 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.

**(z) Significant accounting estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**Impairment of capitalised 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.

**Impairment of capitalised 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. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

**Impairment of property, plant and equipment**

Property, plant and equipment is reviewed if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In determining value in use, future cash flows are based on:

- estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future cash costs of production.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to the value of property, plant and equipment. Any resulting impairment losses recognised could in turn impact future financial results.

**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.

**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.

**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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (aa) Accounting Standards and Interpretations Issued but not yet Effective

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 2014. These are outlined in the table below:

Reference	Title	Summary of Change	Application Date of Standard	Application Date for Group
Interpretation 21	Levies	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1 Jan 2014	1 Jul 2014
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 Jan 2014	1 Jul 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 Jan 2014	1 Jul 2014
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, 3, 7, 10, 12, 107, 112, 124, 127, 132, 134 and 139.	<p>These amendments define an investment entity and require that, with limited exceptions; an investment entity does not consolidate its subsidiaries or apply AASB 3 Business Combinations when it obtains control of another entity.</p> <p>These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit and loss in its consolidated and separate financial statements.</p> <p>These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.</p>	1 Jan 2014	1 Jul 2014
AASB 2013-7	Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders [AASB 1038]	AASB 2013-7 removes the specific requirements in relation to consolidation from AASB 1038, which leaves AASB 10 as the sole source for consolidation requirements applicable to life insurer entities.	1 Jan 2014	1 Jul 2014



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reference	Title	Summary of Change	Application Date of Standard	Application Date for Group
Annual Improvements 2010-2012 Cycle	Annual Improvements to IFRS's 2010-2012 Cycle	<p>This standard sets out amendments to International Financial Reporting Standards ("IFRS's") and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed in this standard:</p> <ul style="list-style-type: none"> <li>▪ IFRS 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.</li> <li>▪ IFRS 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37.</li> <li>▪ IFRS 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment's asset to the entity's assets.</li> <li>▪ IAS 16 &amp; IAS 38 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net varying amounts.</li> <li>▪ IAS 24 – Defines a management entity providing Key Management Personnel ("KMP") services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.</li> </ul>	1 Jul 2014	1 Jul 2015
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.	<p>This Standard contains three main parts and makes amendments to a number of Standards and Interpretations.</p> <p>Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.</p> <p>Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.</p> <p>Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.</p>	Part A – 20 Dec 2013 Part B – 1 Jan 2014 Part C – 1 Jan 2015	Part A and B – 1 Jul 2014 Part C – 1 Jul 2015

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reference	Title	Summary of Change	Application Date of Standard	Application Date for Group
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 Jul 2013	1 Jul 2014
Annual Improvements 2011-2013 Cycle	Annual Improvements to IFRS's 2011-2013 Cycle	<p>This standard sets out amendments to IFRS's and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed in this standard:</p> <ul style="list-style-type: none"> <li>▪ IFRS 13 – Clarifies that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined IAS 32.</li> <li>▪ IAS 40 Clarifies that judgement is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgement is based on guidance in IFRS 3.</li> </ul>	1 Jul 2014	1 Jul 2015
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	<p>AASB 2012-3 adds application guidance to AASB 132 Financial Instruments:</p> <p>Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.</p>	1 Jan 2014	1 Jul 2015
AASB 1031	Materiality	<p>The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.</p> <p>AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations has been removed.</p>	1 Jan 2014	1 Jul 2014

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary of Change	Application Date of Standard	Application Date for Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit and loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>Where the fair value option used for financial liabilities the change in fair value is to be accounted for as follows:</p> <p>a) The change attributable to changes in credit risk are presented in other comprehensive income.</p> <p>b) The remaining change is presented in profit or loss.</p> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in the profit or loss.</p> <p>Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require disclosures on transition to AASB 9 in some circumstances.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p>	1 Jan 2017	1 Jul 2017

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reference	Title	Summary of Change	Application Date of Standard	Application Date for Group
AASB 1053	Application of Tiers of Australian Accounting Standards	<p>This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards</p> <p>(b) Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit entities in the private sector that have public accountability (as defined in this standard)</p> <p>(b) The Australian Government and State, Territory and Local governments</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit private sector entities that do not have public accountability</p> <p>(b) All not-for-profit private sector entities</p> <p>(c) Public sector entities other than the Australian Government and State, Territory and Local governments.</p> <p>Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1, 2012-7 and 2012-11.</p> <p>Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015.</p> <p>AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p>	1 Jul 2013	1 Jul 2014

The Directors have reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2014. 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 change is necessary to Group accounting policies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 3: REVENUE AND EXPENSES**

	2014 \$'000	2013 \$'000
<b>Costs of production</b>		
Production	-	13,078
Shipping	-	3,164
	-	16,242
<b>Depreciation and amortisation</b>		
Depreciation	202	2,259
Amortisation	-	2,944
	202	5,203
<b>Other operating costs</b>		
Care and maintenance	674	-
Royalties and landowner payments	41	2,150
	715	2,150
<b>Other revenue</b>		
Interest income	38	86
	38	86
<b>Other income</b>		
Profit on sale of assets	263	-
	263	-
<b>Corporate expenses</b>		
Audit and review fees	109	92
Accounting fees	123	61
Consulting fees	1,013	1,057
Legal fees	317	837
Foreign exchange gain	(250)	(35)
Travel and accommodation	36	190
Occupancy costs	411	260
Share-based payments - employee benefits	154	298
Salaries and wages	2,155	3,171
Superannuation	201	240
Other	663	938
Directors' fees	160	120
	5,092	7,229
<b>Other expenses</b>		
Rehabilitation - non operating minesites	852	-
Impairment expense	683	373
	1,535	373
<b>Finance expenses</b>		
Interest and fees on secured loans	530	56
Interest on unsecured loan	76	17
Interest on other financial liabilities	345	-
Other	112	50
	1,063	123

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 4: 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:

	2014 \$'000	2013 \$'000
Loss before income tax	(8,306)	(2,447)
Income tax benefit calculated at 30%	(2,492)	(734)
Tax effect of:		
Non-deductible expenses	49	151
Temporary differences movement	315	1,615
Assessable income not included in accounting profit	1,974	(1,125)
Exploration expenditure write offs	154	93
<b>Income tax expense/(benefit) attributable to loss before tax</b>	<b>-</b>	<b>-</b>

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.

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

	2014 \$'000	2013 \$'000
Tax losses carried forward (i)	3,658	11,206
Capital losses carried forward	2,242	2,242
Provision for site restoration	256	-
Accrued expenses	240	204
Assets available for sale	-	227
Borrowing costs	166	187
Share issue/business related costs	165	175
	<b>6,727</b>	<b>14,241</b>

- (i) The decrease in tax losses carried forward is due to the Company's failure to meet the Continuity of Ownership Test which has resulted in tax losses forgone for all years prior to 2012. The Company has not undertaken Same Business Testing to determine whether the income tax losses may still be utilised.

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits thereof.

**Deferred tax liability not brought to account**

	2014 \$'000	2013 \$'000
Unrealised FX	72	2
Capitalised exploration costs	449	476
Depreciable assets	35	1
Mining assets	2,962	5,063
	<b>3,518</b>	<b>5,542</b>

**Income tax expense not brought to account in equity**

	2014 \$'000	2013 \$'000
Share issue costs	109	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## NOTE 5: CASH AND CASH EQUIVALENTS

	2014 \$'000	2013 \$'000
Cash at bank	1,106	130
	<u>1,106</u>	<u>130</u>

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

## NOTE 6: TRADE AND OTHER RECEIVABLES

	2014 \$'000	2013 \$'000
<b>Current</b>		
Other receivables (i)	-	3,009
	<u>-</u>	<u>3,009</u>
<b>Non-current</b>		
Security deposits (ii), (iii)	673	690
	<u>673</u>	<u>690</u>

Other receivables arise from transactions outside the usual operating activities of the Group. Collateral is not normally obtained.

- (i) Included in other receivables at 30 June 2013, is a \$3.000m receivable relating to a placement agreement executed on 30 June 2013. These funds were received on 8 July 2013. Refer to Note 17 for details of movements in share capital;
- (ii) Security deposits of \$0.596m have been lodged with the Department of Mines and Energy, Northern Territory and are unsecured and accrue no interest (2013: \$0.596m); and
- (iii) In addition to the security deposit noted in (ii) above, security deposits of \$0.077m are being held as security for the Company's leased premise (2013: \$0.094m).

The aging analysis of current other receivables are as follows:

	2014 \$'000	2013 \$'000
0-30 days	-	2,998
31-90 days	-	11
	<u>-</u>	<u>3,009</u>

## NOTE 7: INVENTORIES

	2014 \$'000	2013 \$'000
Concentrate on hand - at cost	-	138
Stores and spares - at cost	-	40
	<u>-</u>	<u>178</u>

Inventories relate to concentrate, stores and spares items from the Lethbridge South operation located on the Tiwi Islands.

During the year ended 30 June 2014, these items were determined to have no remaining value to the Company or its future projects and an impairment expense was recognised in the Consolidated Statement of Comprehensive Income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 8: OTHER CURRENT ASSETS**

	2014 \$'000	2013 \$'000
Prepayments	106	127
Transaction costs (i)	639	-
	745	127

- (i) The amount relates to transaction costs that are directly attributable to the establishment of the funding facilities negotiated for the Keysbrook Project. The amount will be reclassified to borrowings on drawdown of the facilities.

**NOTE 9: ASSETS HELD FOR SALE**

	2014 \$'000	2013 \$'000
Assets held for sale	-	682
	-	682

Items of plant and equipment identified as held for sale from the Lethbridge South operation located on the Tiwi Islands were sold during the year ended 30 June 2014.

**NOTE 10: PROPERTY PLANT AND EQUIPMENT**

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 10: PROPERTY PLANT AND EQUIPMENT (Continued)**

	Land \$'000	Site Plant & Equipment \$'000	Office Equipment \$'000	Total \$'000
At 1 July 2012 net of accumulated depreciation	2,192	3,246	-	5,438
Additions	997	226	564	1,787
Transfers between asset classes	-	(127)	127	-
Transfer to assets held for sale	-	(682)	-	(682)
Disposal	-	(5)	-	(5)
Impairment	-	(280)	-	(280)
Depreciation charge for the year	-	(2,171)	(88)	(2,259)
At 30 June 2013 net of accumulated depreciation	3,189	207	603	3,999
<b>At 30 June 2013</b>				
Cost	3,189	278	691	4,158
Accumulated depreciation	-	(71)	(88)	(159)
Net carrying amount	3,189	207	603	3,999

Refer to Note 16 for details of assets held as security.

**NOTE 11: EXPLORATION & EVALUATION EXPENDITURE**

Exploration and evaluation phase:

	2014 \$'000	2013 \$'000
Opening balance	1,588	1,409
Exploration expenditure incurred	410	272
Impairment loss	(510)	(93)
Closing balance	1,488	1,588

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 per Note 2(f), those amounts are charged to the Consolidated Statement of Comprehensive Income.

**NOTE 12: MINE DEVELOPMENT EXPENDITURE**

	Mine Development Tiwi Islands \$'000	Mine Development Keysbrook \$'000	Total \$'000
Opening balance as at 1 July 2013	13	16,126	16,139
Additions	11	8,015	8,026
Impairment	(24)	-	(24)
Closing Balance as at 30 June 2014	-	24,141	24,141
Opening balance as at 1 July 2012	2,887	9,994	12,881
Additions	70	6,132	6,202
Amortisation	(2,944)	-	(2,944)
Closing Balance as at 30 June 2013	13	16,126	16,139

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 13: TRADE AND OTHER PAYABLES**

	2014 \$'000	2013 \$'000
<b>Current</b>		
Trade payables	2,614	3,188
Other payables	1,871	2,978
	<u>4,485</u>	<u>6,166</u>
<b>Non-current</b>		
Other payables	417	-
	<u>417</u>	<u>-</u>

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

**NOTE 14: PROVISIONS**

	2014 \$'000	2013 \$'000
<b>Current</b>		
Annual leave	234	191
Long service leave	139	125
Site restoration (a)	852	-
	<u>1,225</u>	<u>316</u>
<b>Non-current</b>		
Long service leave	127	64
	<u>127</u>	<u>64</u>

(a) Site restoration

	2014 \$'000	2013 \$'000
Opening balance	-	-
Rehabilitation and restoration provision accretion	-	-
Change in scope of restoration provision	852	-
Utilised during the year	-	-
Closing balance	<u>852</u>	<u>-</u>

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.

This provision specifically relates to the costs associated with the dismantling and closure of the Lethbridge South operations, located on the Tiwi Islands. As at 30 June 2013, the provision was estimated at nil due to the uncertainty of the Company either retaining all assets for future projects on the Tiwi Islands or selling the assets in their entirety to a third party.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 15: OTHER FINANCIAL LIABILITIES**

	2014 \$'000	2013 \$'000
<b>Current</b>		
Other financial liabilities	1,000	-
	<u>1,000</u>	<u>-</u>
<b>Non-current</b>		
Other financial liabilities	480	-
	<u>480</u>	<u>-</u>

These amounts attract interest at 4.5% per annum and are subject to contractual payment dates.

**NOTE 16: LOANS AND BORROWINGS**

	2014 \$'000	2013 \$'000
<b>Current</b>		
Bank loan (i)	725	725
Insurance premium funding	69	77
Other party loan (ii)	3,940	-
Other party sales debt (iii)	-	69
Major shareholder settlement (iv)	1,000	-
	<u>5,734</u>	<u>871</u>
<b>Non-current</b>		
Other party sales debt (iii)	69	-
Major shareholder settlement (iv)	-	1,000
	<u>69</u>	<u>1,000</u>

- (i) The carrying amount of assets pledged as security for the bank loan facility is \$0.825m (2012: \$0.825m). This loan is interest only; the current interest rate is 6.973% per annum;
- (ii) MZI has entered into a funding arrangement with Resource Capital Fund VI L.P. ("RCF") for a US\$3.500m short-term loan facility in December 2013. In April 2014, RCF increased the funding arrangement by US\$1.000m. This US\$1.000m was repaid by the issue of 97,166,621 MZI shares on 27 June 2014. The remaining amount of US\$3.500m is repayable no later than 30 September 2014 with an interest rate of 10% per annum and is secured over the Group's assets.
- The Australian Securities Exchange has granted MZI a waiver from listing rule 10.1 to the extent necessary to permit the Group to grant security over its assets in favour of RCF pursuant to the loan facility agreement without obtaining shareholder approval;
- (iii) Amounts comprising this sales debt are unsecured and non-interest bearing. This amount is subject to a binding agreement which requires repayment at 5% per shipment of zircon concentrate produced from the Keysbrook Project and by no later than 31 December 2015; and
- (iv) The major shareholder settlement is due to be paid on 30 June 2015 and incurs an interest rate of 10% per annum. This amount is unsecured.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 17: SHARE CAPITAL**

**Ordinary shares**

	2014 \$'000	2013 \$'000
2,786,581,667 (2013: 2,011,983,314) ordinary fully paid shares	63,715	54,413

**Movements in ordinary share capital**

	No. of Shares	\$'000
<b>Issued shares:</b>		
At 1 July 2012	1,697,510,047	46,306
Exercise of options	4,274,038	107
As at 30 June 2013	1,701,784,085	46,413
At 1 July 2013	1,701,784,085	46,413
Share placements (i), (ii)	542,558,405	7,044
Share purchase plan	231,481,601	3,000
Shares issued pursuant to a Deed of Settlement (iii)	78,717,747	5,000
Shares issued pursuant to an Employee Share Trust Plan (iv)	125,383,999	1,505
Shares issued pursuant to a Facility Agreement (v)	106,655,830	1,183
Share issue costs	-	(430)
As at 30 June 2014	2,786,581,667	63,715
<b>Unissued shares:</b>		
At 1 July 2012	78,717,747	5,000
Share placement (i)	231,481,482	3,000
As at 30 June 2013	310,199,229	8,000
At 1 July 2013	310,199,229	8,000
Share placements transferred to Issued shares (i), (iii)	(310,199,229)	(8,000)
As at 30 June 2014	-	-
Total share capital 30 June 2013	2,011,983,314	54,413
Total share capital 30 June 2014	2,786,581,667	63,715

- (i) A placement agreement was executed on 30 June 2013 and 231,481,482 shares were issued on 23 July 2013;
- (ii) A placement agreement was executed on 31 October 2013 and 311,076,923 shares were issued on 8 November 2013;
- (iii) Shares issued to Stirling Zircon Pty Ltd under a Deed of Settlement as consideration for the acquisition of exploration and plant and equipment assets. The Deed of Settlement was executed on 22 October 2013 and the shares were issued 29 April 2014;
- (iv) Shares issued pursuant to an Employee Share Trust Plan approved by shareholders at a general meeting on 26 November 2013; and
- (v) Shares issued pursuant to Facility Agreement as consideration for a US\$1.000m loan repayment and US\$0.105m loan fee. Refer Note 16 for details.

**Terms and conditions**

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.

**NOTE 17: SHARE CAPITAL (Continued)**

**Employee share schemes**

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

**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 optimum returns 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 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.

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.

	2014	2013
Gearing ratio	20.3%	8.8%

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

**NOTE 18: RESERVES**

**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 shares held in trust for employees of the Group.

**NOTE 19: SHARE-BASED PAYMENTS**

**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. 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 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 10,000,000 options over ordinary shares under Plan A were in place during the year and as at 30 June 2014 (Series 5 and 6).

**Options issued to Directors**

At a General Meeting held on 31 August 2012, shareholders approved the issue of 20,000,000 options over ordinary shares to Executive and Non-Executive Directors (Series 7).

These options may be exercised at any time from the date of vesting to the date of expiry. The exercise price for these options granted to Executive and Non-Executive Directors is \$0.04. 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.

These options over ordinary shares were in place during the year and as at 30 June 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### NOTE 19: SHARE-BASED PAYMENTS (Continued)

A further 8,000,000 options over ordinary shares were granted on 27 June 2014 following approval at a General Meeting held on that date (Series 10).

These options may be exercised at any time from the date of vesting to the date of expiry. The exercise price for these options granted to Non-Executive Directors is \$0.02. 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.

These options over ordinary shares were in place as at 30 June 2014.

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

#### Options issued in consideration for services

On 21 June 2013, the Company granted 4,500,000 options with an exercise price of \$0.02 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 50,000,000 options with an exercise price of \$0.016 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.

On 27 June 2014, the Company granted 79,500,000 options with an exercise price of A\$0.01648 to Resource Capital Fund VI L.P. 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. As at 30 June 2014, these options remained unissued, the issue date was 2 July 2014.

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

#### Movements in options

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

	2014		2013	
	Options No.	Weighted average exercise price	Options No.	Weighted average exercise price
Outstanding at the beginning of the year	34,500,000	\$0.0403	40,500,000	\$0.0500
Granted during the year	137,500,000	\$0.0165	24,500,000	\$0.0363
Expired during the year	-	\$0.0000	(30,500,000)	(\$0.0500)
	172,000,000	\$0.0213	34,500,000	\$0.0403

The weighted average remaining contractual life of the share options as at 30 June 2014 is 2.57 years (2013: 2.5 years).

The weighted average fair value of options granted during the year was \$0.0054 (2013: \$0.0081).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### NOTE 19: SHARE-BASED PAYMENTS (Continued)

The following table lists the inputs to the model for options in place during the year and as at 30 June 2014:

	Series 5	Series 6	Series 7	Series 8	Series 9	Series 10	Series 11
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility (%)	80.00%	80.00%	80.00%	99.50%	99.40%	99.40%	99.40%
Risk-free interest rate (%)	4.50%	4.50%	4.50%	2.50%	3.10%	2.70%	2.70%
Expected life of options (years)	3.129	4.132	3.633	3.000	3.000	3.000	3.016
Exercise price (cents)	4.0	7.5	4.0	2.0	1.6	2.0	1.6
Grant date share price (cents)	2.0	2.0	2.0	1.4	1.2	0.9	0.9
Grant Date	27 Apr 2012	27 Apr 2012	31 Aug 2012	21 Jun 2013	5 Dec 2013	27 Jun 2014	27 Jun 2014
Expiry Date	30 Jun 2015	30 Jun 2016	31 Dec 2015	3 Jul 2016	5 Dec 2016	27 Jun 2017	02 Jul 2017
Number	5,000,000	5,000,000	20,000,000	4,500,000	50,000,000	8,000,000	79,500,000
Fair value at grant date (cents)	0.0080	0.0070	0.0087	0.0078	0.0069	0.0042	0.0046

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.

#### Rights over shares issued under the Employee Share Trust Plan ("Plan B")

Plan B was established where key management personnel ("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 directors of MZI.

KMP do not possess any rights to participate in Plan B as participation is solely determined by the Board. 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 2014, 125,383,999 rights over shares were granted with the following performance conditions:

- 30% of the rights over shares will vest upon a positive final investment decision by 30 June 2014. The rights over shares have subsequently been forfeited with no expense recognised in the Statement of Consolidated Income;
- 35% of the rights over shares will vest upon a positive final investment decision in the Keysbrook Project within two years of grant date; and
- 35% of the rights over shares will vest upon first shipment of product from the Keysbrook Project within two years of grant date.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### NOTE 19: SHARE-BASED PAYMENTS (Continued)

#### 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:

	2014		2013	
	Rights over shares No.	Weighted average fair value	Rights over shares No.	Weighted average fair value
Outstanding at beginning of year	-	-	-	-
Granted during the year	125,383,999	\$0.0108	-	-
Forfeited during the year	(37,710,000)	(\$0.0106)	-	-
	<u>87,673,999</u>	<u>\$0.0109</u>	<u>-</u>	<u>-</u>

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 2014 is 1.79 years (2013: nil).

#### 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 directors of MZI.

Employees do not possess any rights to participate in Plan C as participation is solely determined by the Board. 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 2014, 32,798,494 performance rights were granted with the following performance conditions:

- 92% of the performance rights will vest upon a positive final investment decision by 30 June 2014. The performance rights have subsequently been forfeited with no expense recognised in the Statement of Consolidated Income; and
- 8% of the performance rights will vest upon a successful commissioning of the Keysbrook Project by 30 June 2015.

#### 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:

	2014		2013	
	Performance rights No.	Weighted average fair value	Performance rights No.	Weighted average fair value
Outstanding at beginning of year	-	-	-	-
Granted during the year	32,798,494	\$0.0120	-	-
Forfeited during the year	(30,198,494)	\$0.0120	-	-
	<u>2,600,000</u>	<u>\$0.0120</u>	<u>-</u>	<u>-</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### NOTE 19: SHARE-BASED PAYMENTS (Continued)

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 dividend 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 2014 is 1.00 years (2013: nil)

There were no cash settled share-based payments during the year (2013: \$nil).

### NOTE 20: LOSS PER SHARE

	2014 \$'000	2013 \$'000
Loss used in calculating basic and diluted loss per share	(8,306)	(2,447)
Loss used in calculating basic and diluted loss per share from continuing operations	(8,306)	(2,447)

	2014 No.	2013 No.
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Weighted average number of ordinary shares used in the calculation of basic loss per share	2,327,425,662	1,700,437,470
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### NOTE 21: SEGMENT REPORTING

#### 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 with the Group. Discrete financial information about each of these operating businesses is reported to the Board of Directors on a monthly basis.

#### Description of projects

##### *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. The project's only customer was Tricoastal Minerals (Holdings) Company Limited.

##### *Keysbrook Project*

This project consists of the Keysbrook Project, located in the south-west of Western Australia. The project has no customers at this stage.

##### *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:

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

#### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2 to the financial statements and in the prior period except as noted below.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 21: SEGMENT REPORTING (Continued)**

2014	Tiwi Island Projects \$'000	Keysbrook Project \$'000	Unallocated Corporate / Other \$'000	Consolidated \$'000
Other revenue	-	-	38	38
Other income	260	-	3	263
Depreciation and amortisation	(12)	-	(190)	(202)
Other operating costs	(715)	-	-	(715)
Corporate expenses	-	(354)	(4,738)	(5,092)
Other expenses	(1,303)	-	(232)	(1,535)
Finance expenses	(133)	(301)	(629)	(1,063)
Segment results	(1,903)	(655)	(5,748)	(8,306)
Tax (expense)/benefit				-
Net loss after tax				(8,306)
Share-based payments	-	-	2,047	2,047
Segment assets	2,092	25,183	4,741	32,016
Segment liabilities	957	3,383	9,197	13,537
Capital expenditure	205	8,074	266	8,545

2013	Tiwi Island Projects \$'000	Keysbrook Project \$'000	Unallocated Corporate / Other \$'000	Consolidated \$'000
Sales revenue - external	28,787	-	-	28,787
Other revenue	-	-	86	86
Costs of production	(16,242)	-	-	(16,242)
Depreciation and amortisation	(5,099)	-	(104)	(5,203)
Other operating costs	(2,150)	-	-	(2,150)
Corporate expenses	-	-	(7,229)	(7,229)
Other expenses	(373)	-	-	(373)
Finance expenses	-	-	(123)	(123)
Segment results	4,923	-	(7,370)	(2,447)
Tax (expense)/benefit				-
Net profit after tax				(2,447)
Share-based payments	-	-	298	298
Segment assets	3,113	19,299	4,130	26,542
Segment liabilities	3,098	2,435	2,884	8,417
Capital expenditure	316	7,148	797	8,261

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## NOTE 22: REMUNERATION OF AUDITORS

	2014 \$	2013 \$
Amounts paid or due and payable to the auditors:		
Auditing and reviewing of financial reports	105,040	85,585
Other audit services related to the Group	4,200	6,000
	109,240	91,585

## NOTE 23: RELATED PARTIES

### 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 % 2014	2013
Keysbrook Leucoxene Pty Ltd (i)	Australia	100%	100%
NT Exploration Pty Ltd (i)	Australia	100%	0%

- (i) 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.

### Ultimate parent

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

### 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.

### 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 2014 and 30 June 2013:

- Tricoastal Minerals (Holdings) Company Limited, a company in which Mr C Wong has a beneficial interest, was paid director's fees of \$0.088m (2013: \$0.059m). At 30 June 2014, an amount of \$0.018m (2013: \$0.039m) 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 2014 (2013: US\$0.457m). This is now the subject of a binding term sheet, refer Note 16 for details.

### Compensation of Directors and Key Management Personnel

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

	2014 \$'000	2013 \$'000
Short-term	1,672	1,468
Long-term	121	128
Share-based payment	146	208
	1,939	1,804

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### NOTE 24: CAPITAL AND OTHER COMMITMENTS

#### Operating lease commitments

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:

	2014 \$'000	2013 \$'000
Not later than one year	258	364
Later than one year but not later than five years	548	875
Aggregate lease expenditure contracted for at balance date but not provided for	806	1,239

#### Finance lease commitments

The Group has entered into a funding arrangement to fund the Group's insurance premiums.

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

	2014 \$'000	2013 \$'000
Not later than one year	73	81
Later than one year but not later than five years	-	-
Total minimum lease payments	73	81
Less finance charges	(4)	(4)
Present value of minimum lease payments	69	77

#### 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 2015 for the Group is approximately \$0.523m. This includes the minimum amounts required to retain tenure. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond 2015 are dependent upon whether existing rights of tenure are renewed or new rights of tenure are acquired.

#### Capital commitments

The Group has no capital commitments due within one year as at 30 June 2014 (2013: \$nil) in relation to the construction and development of the Keysbrook Project.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 25: PARENT ENTITY DISCLOSURES**

	2014 \$'000	2013 \$'000
Current assets	9,544	4,177
Non-current assets	19,777	20,050
Total assets	29,321	24,227
Current liabilities	9,573	5,038
Non-current liabilities	613	1,064
Total liabilities	10,186	6,102
Issued capital	63,715	54,413
Reserves	735	1,377
Accumulated losses	(45,315)	(37,665)
	19,135	18,125
Loss for the year	(7,650)	(2,447)
Total comprehensive loss for the year	(7,650)	(2,447)

The Company has no material contingent liabilities; however it has contractual obligations in the form of leases to rent office space. Refer to Note 24 for further details of commitments.

**NOTE 26: STATEMENT OF CASH FLOWS**

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

	2014 \$'000	2013 \$'000
Loss after tax	(8,306)	(2,447)
Depreciation and amortisation	202	5,203
Foreign currency gain	(257)	(62)
Transaction costs	258	-
Rehabilitation - non operating minesites	852	-
Impairment of non-current assets	683	373
Share-based payments	497	333
Sale of assets	(263)	-
<b>Changes in operating asset and liabilities:</b>		
(Increase)/decrease in receivables	11	316
(Increase)/decrease in inventories	40	1,994
(Increase)/decrease in prepayments	21	209
Increase/(decrease) in trade and other payables	(864)	1,012
Increase/(decrease) in provisions	97	253
Increase/(decrease) in borrowings	-	(183)
<b>Net cash flows from operating activities</b>	(7,029)	7,001

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### NOTE 26: STATEMENT OF CASH FLOWS (Continued)

#### Non-cash financing and investing activities

During the year ended 30 June 2014, the following non cash financing transactions occurred:

- On 27 June 2014, the Company issued 97,166,621 fully paid ordinary shares at an issue price of \$0.011 to Resource Capital Fund VI L.P. ("RCF") for repayment of US\$1.000m associated with the short-term loan facility;
- On 27 June 2014, the Company issued 9,489,209 fully paid ordinary shares at an issue price of \$0.012 to RCF for payment of extension fees associated with the short-term loan facility; and
- On 27 June 2014, the Company issued 79,500,000 options over ordinary shares at an exercise price of \$0.01648 to RCF for payment of acceptance fees associated with the Keysbrook Project finance facilities.

### NOTE 27: FINANCIAL INSTRUMENTS

#### Financial risk management objectives and policies

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

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 and senior management.

#### 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 high credit quality 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.

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

2014	Floating interest \$'000	Fixed interest rate maturing in:			Non- interest \$'000	Total \$'000	Average interest rate:	
		< 1 year \$'000	1 to 5 \$'000	> 5 years \$'000			Floating %	Fixed %
Financial assets								
Cash and cash equivalents	1,106	-	-	-	-	1,106	0.5	-
Trade and other receivables	-	-	-	-	673	673	-	-
Financial liabilities								
Trade and other payables	-	-	-	-	4,902	4,902	-	-
Other financial liabilities	-	1,000	480	-	-	1,480	-	4.5
Loans and borrowings	725	5,009	-	-	69	5,803	7.0	9.9

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 27: FINANCIAL INSTRUMENTS (Continued)**

2013	Floating interest	Fixed interest rate maturing in:			Non-interest	Total	Average interest rate:	
	rate	< 1 year	1 to 5 years	> 5 years	bearing		Floating	Fixed
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%

**Financial assets**

Cash and cash equivalents	130	-	-	-	-	130	1.2	-
Trade and other receivables	-	-	-	-	3,699	3,699	-	-

**Financial liabilities**

Trade and other payables	-	-	-	-	6,166	6,166	-	-
Loans and borrowings	-	802	-	-	1,069	1,871	7.2	5.6

At 30 June 2014, by the points shown below if interest rates had moved, with all other variables held constant, post tax loss and equity would have been affected as follows:

	Post tax loss		Equity	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
+ 1% (100 basis points)	4	(7)	(4)	7
- 0.50% (50 basis points)	(2)	3	2	(3)

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.

**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 2014 is as follows:

2014	AA-	Aa1	Internally	Total
	\$'000	\$'000	rated	\$'000
			\$'000	

**Financial assets**

Cash and cash equivalents	1,106	-	-	1,106
Trade and other receivables	77	596	-	673

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 27: FINANCIAL INSTRUMENTS (Continued)**

2013	A-1+ \$'000	Aa1 \$'000	Internally rated \$'000	Total \$'000
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**Financial assets**

Cash and cash equivalents	130	-	-	130
Trade and other receivables	94	596	3,009	3,699

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

**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.

*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.

2014	< 1 year \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
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**Financial assets**

Cash and cash equivalents	1,106	-	-	1,106
Trade and other receivables	-	673	-	673

**Financial liabilities**

Trade and other payables	(4,485)	(417)	-	(4,902)
Other financial liabilities	(1,000)	(480)	-	(1,480)
Loans and borrowings	(5,734)	(69)	-	(5,803)

Net inflow/(outflow)	(10,113)	(293)	-	(10,406)
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**NOTE 27: FINANCIAL INSTRUMENTS (Continued)**

2013	< 1 year \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
<b>Financial assets</b>				
Cash and cash equivalents	130	-	-	130
Trade and other receivables	3,009	690	-	3,699
<b>Financial liabilities</b>				
Trade and other payables	(6,166)	-	-	(6,166)
Loans and borrowings	(871)	(1,000)	-	(1,871)
Net inflow/(outflow)	(3,898)	(310)	-	(4,208)

**Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or 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 at Board level 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:

	2014 A\$'000	2013 A\$'000
Sundry payables	417	423
Loans and borrowings	4,008	69
	4,425	492

At 30 June 2014, 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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
+ 10%	404	45	(404)	(45)
- 10%	(489)	(55)	489	55

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 2014, the AUD:USD exchange rate is A\$1:US\$0.9420 and the year to date average AUD:USD exchange rate is A\$1:US\$0.9148. The Group uses exchange rates provided by the Reserve Bank of Australia.

**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, as a result of their short maturity or because they carry floating rates of interest.

**NOTE 28: CONTINGENT LIABILITIES**

There are no material contingent liabilities of the Company or Group at the reporting date.

**NOTE 29: SUBSEQUENT EVENTS**

On 1 July 2014, the Company announced that Resource Capital Fund VI L.P. ("RCF") received approval from the Foreign Investment Review Board for the Keysbrook Project funding package announced on 2 October 2013.

On 1 July 2014, the Company announced that RCF extended the short-term loan facility repayment date from 30 June 2014 to 14 July 2014 with no changes to the interest rate or security provided previously. On 16 July 2014, the Company announced that this repayment date was further extended to 31 July 2014. Further extensions for the repayment date continue to be granted by RCF.

On 4 July 2014, the Company announced that pursuant to its pro-rata non-renounceable rights offer of one new unlisted option for every 5 fully paid ordinary shares held for consideration of \$0.001, announced on 30 May 2014, 133,634,910 new unlisted options were issued and holding statements despatched. The options have an exercise price of \$0.02 and expire on 30 June 2015.

On 26 August 2014, the Company announced a further increase to the short-term loan facility provided by RCF by US\$3.000m on the same terms and conditions as the current short-term loan facility and a further extension of the repayment date to 30 September 2014. The US\$3.000m increase and extension fee of US\$0.105m will be repaid partially by the issue of 98,660,656 fully paid ordinary shares in MZI at \$0.07. This will bring RCF's shareholding in MZI to 19.9%.

On 3 September 2014, the Company announced that the Keysbrook Project funding packages provided by RCF and RMB Australia Holdings Limited ("RMB") have been restructured. The key points are as follows:

- The senior debt facility provided by RMB has been reduced from US\$50.000m to US\$37.500m;
- The bank guarantee facility provided by RMB has been reduced from A\$12.124m to A\$11.500m;
- Foreign exchange hedging facilities will now be provided by RMB;
- Bridge finance facilities provided by RCF have been increased by a further net US\$11.500m; and
- A contingent US\$4.000m construction cost overrun facility to be provided by RCF.

Overall the revised funding package represents an increase in committed funding from US\$106.500m to US\$109.500m, with the difference being due largely to the inclusion of the contingent cost overrun facility.

**NOTE 30: GOING CONCERN**

As at 30 June 2014, the Group has a working capital deficit of \$10.593m (current assets less current liabilities). The Group has cash on hand at 30 June 2014 of \$1.106m. There was insufficient cash on hand at 30 June 2014 to meet the trade and other payable commitments.

The operating and development activities of the Group will require further funding in the next twelve months.

The Directors are satisfied that the Group can continue to operate as a going concern by raising further funds as required and base this view on the following factors:

- the Group is in advanced stage of completing all conditions precedent to commence drawdown on its funding package with Resource Capital Fund VI L.P. ("RCF") and project finance facilities with RMB Australia Holdings Limited ("RMB");
- On 26 August 2014, the Company announced a further increase to the short-term loan facility provided by RCF by US\$3.000m on the same terms and conditions as the current short-term loan facility and a further extension of the repayment date to 30 September 2014. The US\$3.000m increase and extension fee of US\$0.105m will be repaid partially by the issue of 98,660,656 fully paid ordinary shares in MZI at \$0.07. The remainder will be paid upon drawdown of the RCF funding package; and
- On 3 September 2014, the Company announced a revised structure to its Keysbrook funding. This revised structure will ensure sufficient funding to complete the construction, commissioning and ramp up of the Keysbrook Project through to full production.

**NOTE 30: GOING CONCERN (Continued)**

There are a number of inherent uncertainties about the achievement of the Group's future plans including, but not limited to:

- the ability of the Group to finalise the remaining conditions precedent to drawdown on the revised RCF funding package and RMB project finance facilities; and
- ongoing management of the level of operating and development activities in line with funds available to the Group.

The Directors are confident that they will be able to complete remaining conditions precedent to drawdown on the RCF funding package and RMB project finance facilities to commence the development of the Keysbrook Project, however should the Group not be able to manage the inherent uncertainties referred to above, there would be a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classifications of liabilities that might be necessary should the Group not be able to continue to operate as a going concern.

**DIRECTORS' DECLARATION**  
For the year ended 30 June 2014

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 2014 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 and as set out in Note 30, 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 Chief Executive Officer 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.



M Randall

Chairman

Perth, Western Australia

16 September 2014



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## INDEPENDENT AUDITOR'S REPORT

To the members of MZI Resources Limited

### Report on the Financial Report

We have audited the accompanying financial report of MZI Resources Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the 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 2(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial report complies 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 company'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 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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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**Auditor's opinion**

In our opinion:

- (a) the financial report of MZI Resources Limited 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 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 30 in the financial report which indicates that the Group is dependent on completing all conditions precedent to commence drawdown on its funding package with Resource Capital Fund VI L.P. and project finance facilities with RMB Australia Holdings Limited. If the Group is unable to manage the inherent uncertainties referred to in Note 30, there would be a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

**Report on the Remuneration Report**

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. 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 Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink, appearing to read 'HLB Mann Judd'.

HLB Mann Judd  
Chartered Accountants

A handwritten signature in blue ink, appearing to read 'D I Buckley'.

D I Buckley  
Partner

Perth, Western Australia  
16 September 2014



The Board has adopted the spirit and intent of the Principles of Good Corporate Governance and Best Practice Recommendations of the ASX Corporate Governance Council. The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follows a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "If not, why not" regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

### **Board of Directors**

The Board is responsible for guiding and monitoring the Company on behalf of shareholders by whom they are elected and to whom they are accountable.

The Board operates within the principles set out in the Board Charter, a copy of which is available on the Company's website ([www.mzi.com.au](http://www.mzi.com.au)).

The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of shareholders. Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior management, as set out in the Company's Board Charter.

### **Board composition**

The Board Charter states that:

- the Board is to comprise an appropriate mix of both Executive and Non-Executive Directors;
- the roles of Chairman and Chief Executive Officer are not combined; and
- the Chairman is elected by the full Board and is required to meet regularly with the Chief Executive Officer.

Board members should possess complementary business disciplines and experience aligned with the Company's objectives, with a number of Directors being independent and where appropriate, major shareholders and senior management, being represented on the Board. Consequently, at various times there may not be a majority of Directors classified as being independent, according to ASX guidelines. However, where any Director has a material personal interest in a matter, the Director must declare his interest and abstain from any consideration or vote on the matter.

The Board comprises four Directors, of whom the Chairman, Mr Randall, is considered independent under the principles set out below. The Board does not have a predominance of Non-Executive Directors. Details of the experience, qualifications and term of office of Directors are set out in the Directors' Report.

### **Directors' independence**

Having regard to the share ownership structure of the Company, in certain circumstances and with suitable nominees, it may be considered appropriate by the Board that a major shareholder be represented on the Board. Such appointment would not be deemed to be independent under ASX guidelines. In addition, it is considered appropriate by the Board to effectively utilise the Chairman's skills to provide crucial peer review of the corporate and commercial aspects of the Company's operations.

The Chairman is expected to bring independent thought and judgement to his role in all circumstances. Where matters arise in which there is a perceived conflict of interest, the Chairman must declare his interest and abstain from any consideration or voting on the relevant matter.

The Board has adopted ASX recommended principles in relation to the assessment of Directors' independence. Financial materiality thresholds used in the assessment of independence are set at 10% of the annual gross expenditure of the Company and/or 25% of the annual income or business turnover of the Director.

### **Board performance review**

The Board has adopted a formal process for an annual self-assessment of its collective performance and the performance of individual Directors. The Board is required to meet annually with the purpose of reviewing the role of the Board, assessing its performance over the previous 12 months and examining ways in which the Board can better perform its duties. A formal assessment was undertaken during the year ended 30 June 2014 and outcomes discussed with the board members.

### **Trading in Company securities by Directors, Officers and employees**

Trading of shares is covered by, amongst other things, the *Corporations Act 2001* and the ASX Listing Rules. The Board has established a Securities Trading Policy that imposes restrictions as to when a Director, Officer, consultant, contractor, advisor or an employee who is in possession of unpublished price-sensitive information ("inside information") in relation to the securities of the Company may be restricted from trading during defined closed periods.

If a person possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the person learns the information.

Directors and senior management of the Company are required to notify the Company Secretary before dealing in the Company's securities.

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but no later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the *Corporations Act 2001* and the ASX Listing Rules, the Company must notify the ASX of any transactions conducted by Directors in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment. A copy of the Company's Securities Trading Policy is available on the Company's website.

For details of shares held by Directors please refer to the Directors' Report in these financial statements.

### **Independent professional advice and access to Company Information**

All Directors have the right of access to all relevant Company information, to the Company's senior management and, subject to prior consultation with the Chairman, may seek independent professional advice concerning any aspect of the Company's operations or undertakings at the Company's expense.

### **General risk management**

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company, with the Finance Director having ultimate responsibility to the Board for the risk management and control framework.

Areas of significant business risk to the Company are highlighted in the budget and plans presented to the Board by the Chief Executive Officer and Chief Financial Officer each year. Arrangements put in place by the Board to monitor risk management include regular reporting to the Board in respect of operations and the financial position of the Group.

The Chief Executive Officer and Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the *Corporations Act 2001* and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in material respects in relation to financial reporting risk. A summary of the Company's Risk Management Policy is available on the Company's website.

### **Shareholder communication**

In adopting a continuous disclosure policy, the Board ensures that shareholders are provided with up-to-date information. This disclosure policy includes identification and recognition of matters which may have a material effect on the price of the Company's shares and notifying them to ASX. The Board aims to ensure that shareholders and investors have equal access to the Company's information. The Company has policies and procedures designed to ensure compliance with ASX Listing Rules. The Company also has in place a strategy to disseminate information to shareholders and encourage effective participation at shareholder meetings, as well as to communicate material to regulatory authorities and the broader community.

### **Review of corporate governance**

The Board has reviewed its current practices in light of the ASX Principles of Good Governance and Best Practice Guidelines, with a view to making amendments where applicable, after taking into account the Company's size and



## CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2014

the resources it has available. As the Company's activities develop, further consideration will be given to increasing the size of the Board and the implementation of additional governance committees.

### **Diversity policy**

The Company recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. The Company believes its diverse workforce is the key to its continued growth, improved productivity and performance.

The Company actively values and embraces the diversity of its employees and is committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated.

The Company, in consultation with the Board, is currently preparing a draft Diversity Policy for consideration and adoption by the Board. The Policy is expected to be in place within the next financial year and will make provision for the Board to determine measurable objectives in line with the overall objectives of the Policy.

As at 30 June 2014, the proportion of women employed across the Group, as a whole, at manager/supervisor level, at senior management level and at Board level were:

	Number of employees	Number of women	Percentage
Total Employees	25	8	32%
Managers / Supervisors	9	3	33%
Senior Management	2	-	-
Board	4	-	-

### **ASX Best Practice Recommendations**

The table below identifies the ASX Best Practice Recommendations and whether or not the Company has complied with the recommendations during the reporting period:

		Action taken and reasons if not adopted
Principle 1: Lay solid foundation for management and oversight		
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management	Adopted
1.2	Disclose the process for evaluating the performance of senior management	
1.3	Provide the information indicated in the Guide to Reporting on Principle 1.	
Principle 2: Structure the Board to add value		
2.1	A majority of the Board should be independent	Adopted except:  2.1 The Company comprises four Directors, only one of whom is considered independent. It is the intention of the Company to comply with this policy at a time when the size of the Company and its activities warrant such a structure.  2.4 The Company is not of
2.2	The chairperson should be an independent Director	
2.3	The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual	
2.4	The Board should establish a Nomination Committee	
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual Directors	

**CORPORATE GOVERNANCE STATEMENT**  
For the year ended 30 June 2014

		Action taken and reasons if not adopted
<b>2.6</b>	Provide the information indicated in <i>Guide to Reporting</i> on Principle 2	a size that justifies having a separate Nomination Committee so matters typically considered by such a committee are dealt with by the full Board.
<b>Principle 3: Promote ethical and responsible decision making</b>		
<b>3.1</b>	Establish a code of conduct to and disclose the code or a summary of the code as to:	Adopted except:
	3.1.1 the practices necessary to maintain confidence in the Company's integrity	3.2, 3.3, 3.4 The Company's Diversity Policy was not in place during the reporting period. The terms of the policy will be outlined, and the Company's compliance with these objectives and performance against measurable objectives, will be reported in 2014/2015 Annual Report.
	3.1.2 the practices necessary to take into account their legal obligations and reasonable expectations of their stakeholders	
	3.1.3 The responsibility and accountability of individuals for reporting and investigating reports of unethical practices	
<b>3.2</b>	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them	
<b>3.3</b>	Disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them	
<b>3.4</b>	Disclose in each annual report the proportion of each women employees in the whole organisation, women in senior management positions and women on the board	
<b>3.5</b>	Provide the information indicated in <i>Guide to Reporting</i> on Principle 3	
<b>Principle 4: Safeguard integrity in financial reporting</b>		
<b>4.1</b>	The Board should establish an Audit Committee	Adopted except:
<b>4.2</b>	Structure the Audit Committee so that it consists of: <ul style="list-style-type: none"> <li>Only Non-Executive Directors</li> <li>A majority of independent Directors</li> <li>An independent chairperson who is not the chairperson of the Board</li> <li>At least three members</li> </ul>	4.1 The Company is not of a size that justifies having a separate Audit Committee so matters typically considered by such a committee are dealt with by the full Board.
<b>4.3</b>	The Audit Committee should have a formal operating charter	
<b>4.4</b>	Provide the information indicated in <i>Guide to Reporting</i> on Principle 4	
<b>Principle 5: Make timely and balanced disclosure</b>		
<b>5.1</b>	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	Adopted
<b>5.2</b>	Provide the information indicated in the <i>Guide to Reporting</i> on Principle 5	

**CORPORATE GOVERNANCE STATEMENT**  
For the year ended 30 June 2014

		Action taken and reasons if not adopted
<b>Principle 6: Respect the rights of shareholders</b>		
<b>6.1</b>	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	Adopted
<b>6.2</b>	Provide the information indicated in <i>Guide to Reporting</i> on Principle 6	
<b>Principle 7: Recognize and manage risk</b>		
<b>7.1</b>	Establish and disclosed policies for the oversight and management of material business risks	Adopted
<b>7.2</b>	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively	
<b>7.3</b>	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the <i>Corporations Act 2001</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	
<b>7.4</b>	Provide the information indicated in <i>Guide to Reporting</i> on Principle 7	
<b>Principle 8: Encourage enhanced performance</b>		
<b>8.1</b>	The Board should establish a Remuneration Committee	Adopted except:
<b>8.2</b>	The Remuneration Committee should be structured so that it: <ul style="list-style-type: none"> <li>Consists of a majority of independent directors</li> <li>Is chaired by an independent chair</li> <li>Has at least three members</li> </ul>	8.1 The Company is not of a size that justifies having a separate Remuneration Committee so matters typically considered by such a committee are dealt with by the full Board.
<b>8.2</b>	Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior management	
<b>8.3</b>	Provide the information indicated in <i>Guide to Reporting</i> on Principle 8	

MZI Resources Ltd's corporate governance practices were in place throughout the year ended 30 June 2014.

Various corporate governance practices are discussed within this statement. For further information on the Company's corporate governance practices and policies, please refer to the Company's website ([www.mzi.com.au](http://www.mzi.com.au)).