CONSOLIDATED ZINC LTD

ABN 27 118 554 359

# Annual Financial Statements

## For the six months ended

## 31 December 2019

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# Corporate Directory

**DIRECTORS**

Mr Stephen Copulos – Non-Executive Chairman
Mr Andrew Richards – Executive Director
Mrs Angela Pankhurst – Non-Executive Director
Mr Brad Marwood – Managing Director

**COMPANY SECRETARY**

Mr Anthony Italiano

**PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE**

Level 13
37 St Georges Terrace
PERTH WA 6000

**CONTACT DETAILS**

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PERTH WA 6831

Ph: + 61 (8) 9322 3406
Fax: + 61 (8) 9320 7501

Website: www.consolidatedzinc.com.au
Email: info@conzinc.com.au

**SOLICITORS**

Fairweather Corporate
595 Stirling Hwy
PEPPERMINT GROVE WA 6011

**SHARE REGISTRY**

Link Market Services Limited
Level 4, 152 St George's Terrace
Perth WA 6000

**AUDITORS**

Butler Settineri (Audit) Pty Ltd
Unit 16, First Floor
100 Railway Road
SUBIACO WA 6008

**STOCK EXCHANGE**

Australian Securities Exchange
Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000

**(ASX: CZL)**

# Chairman's Review

Dear Fellow Consolidated Zinc Shareholders

It is my pleasure to present the transitional Annual Report for Consolidated Zinc Limited (ASX: CZL) for the period of 1 July 2018 to 31 December 2018, reflecting the Company's decision to change its financial year end to 31 December of each year. CZL has made this change to align with the reporting date of its Mexican subsidiary, Minera Latin American Zinc S.A.P.I. de C.V. ("MLAZ"), operator of the Plomosas Zinc and Lead Mine in Mexico.

The past six months were an exciting time for our Company, as we ramped up zinc and base metals production from the Plomosas Mine in northern Mexico, having commenced production in September 2018. We came into production ahead of schedule at a very low capital cost due to having established a toll treatment and concentrate offtake agreement. In the meantime we continue to investigate the option of on-site processing and expanding the resource through exploration to support it.

In the reporting period, CZL mined 6,075 tonnes of ore at 9.6% zinc and 2.1% lead from the 1000 and 992 stopes, and the Company completed 409 metres of underground development. This included completing a main decline bypass to reduce haul truck cycle times by more than 50 per cent while also significantly reducing haul truck wear and tear. Level 5 992 development was completed, providing access to the Southwest, Northwest and 1000 stopes, and an internal decline between Level 5 and Level 7 commenced in February 2019, as well as establishing access to Level 6, where more than 3,000 tonnes of high-grade ore has been broken but not hauled to surface. CZL also undertook several other activities to improve productivity and safety.

We achieved commercial production at Plomosas only 70 days after commencement of mine development activities, and our ramp-up activities have seen production increase from small amounts in September and October to more than 4,000 tonnes of ore in December 2018. During 2019, we expect to further increase this.

Given the promising signs at Plomosas, in late October, CZL announced it would increase its ownership of the mine to 90% through an increased shareholding in MLAZ. This was completed by late December 2018.

Subsequent to year-end, following a review of CZL's organisational structure, Chief Executive Officer Brad Marwood joined the Board as the Company's Managing Director. Brad is an experienced mining engineer and resource industry executive and will be invaluable in leading CZL as it establishes the Company's next phase of growth as a commercial producer of high-grade zinc and lead from the Plomosas mine. In other Board changes, Angela Pankhurst was appointed a Non-Executive Director, bringing a strong accounting, financial management and corporate governance background to CZL.

I would like to thank our staff and management for their hard work over the past six months, particularly in getting Plomosas into commercial production in such a short time. I would also like to thank my fellow Board members for their contributions, and our Shareholders, both new and existing, for continuing to support CZL as it cements its role as a low-cost zinc and base metals producer.

The year ahead will be another busy one for CZL as we ramp up production as well as continue to explore our promising landholding, and I look forward to sharing the journey with you.

Yours sincerely

*Stephen Copulos*

**Stephen Copulos**
Chairman

**PLOMOSAS PROJECT, CHIHUAHUA STATE, MEXICO (CONSOLIDATED ZINC 90%)**

| Table 1: Total Plomosas Mineral Resources at 31 December 2018<br>Reported above a 3.0% Zn cut-off grade | | | | | | | |
|---|---|---|---|---|---|---|---|
| Prospect | Indicated Mineral Resource | | | | | | |
| | Tonnage | Zn | Pb | Ag | Zn | Pb | Ag |
| | t | % | % | g/t | t | t | Oz |
| Level 7 | 107,000 | 18.5 | 8.6 | 55.1 | 19,900 | 9,300 | 190,300 |
| Tres Amigos | 97,000 | 12.5 | 1.8 | 15.9 | 12,000 | 1,800 | 49,400 |
| Tres Amigos North | 38,000 | 8.4 | 4.0 | 13.6 | 3,200 | 1,500 | 16,700 |
| **Total** | **242,000** | **14.5** | **5.2** | **32.9** | **35,100** | **12,500** | **256,400** |

| Prospect | Inferred Mineral Resource | | | | | | |
|---|---|---|---|---|---|---|---|
| | Tonnage | Zn | Pb | Ag | Zn | Pb | Ag |
| | t | % | % | g/t | t | t | Oz |
| Level 7 | 212,000 | 10.9 | 5.0 | 32.3 | 23,100 | 10,600 | 220,000 |
| Tres Amigos | 507,000 | 12.9 | 1.9 | 13.4 | 65,400 | 9,600 | 218,300 |
| Tres Amigos North | 79,000 | 9.5 | 3.6 | 17.9 | 7,500 | 2,900 | 45,600 |
| Carola | 59,000 | 11.6 | 5.2 | 33.6 | 6,900 | 3,100 | 63,900 |
| Las Espadas | 79,000 | 11.7 | 5.0 | 14.3 | 9,200 | 3,900 | 36,200 |
| **Total** | **935,000** | **12.0** | **3.2** | **19.4** | **112,100** | **30,000** | **584,000** |

| Prospect | Total Mineral Resource | | | | | | |
|---|---|---|---|---|---|---|---|
| | Tonnage | Zn | Pb | Ag | Zn | Pb | Ag |
| | t | % | % | g/t | t | t | Oz |
| Level 7 | 319,000 | 13.5 | 6.2 | 40.0 | 43,000 | 19,900 | 410,300 |
| Tres Amigos | 603,000 | 12.8 | 1.9 | 13.8 | 77,400 | 11,400 | 267,700 |
| Tres Amigos North | 117,000 | 9.1 | 3.7 | 16.5 | 10,700 | 4,400 | 62,300 |
| Carola | 59,000 | 11.6 | 5.2 | 33.6 | 6,900 | 3,100 | 63,900 |
| Las Espadas | 79,000 | 11.7 | 5.0 | 14.3 | 9,200 | 3,900 | 36,200 |
| **Total** | **1,178,000** | **12.5** | **3.6** | **22.2** | **147,100** | **42,600** | **840,400** |

| Table 2: Total Plomosas Mineral Resources at 30 June 2018 Reported above a 3.0% Zn cut-off grade | | | | | | | |
|---|---|---|---|---|---|---|---|
| Prospect | Indicated Mineral Resource | | | | | | |
| | Tonnage | Zn | Pb | Ag | Zn | Pb | Ag |
| | t | % | % | g/t | t | t | Oz |
| Level 7 | 107,000 | 18.5 | 8.6 | 55.1 | 19,900 | 9,300 | 190,300 |
| Tres Amigos | 97,000 | 12.5 | 1.8 | 15.9 | 12,000 | 1,800 | 49,400 |
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|---|---|---|---|---|---|---|---|
| | Tonnage | Zn | Pb | Ag | Zn | Pb | Ag |
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| Level 7 | 319,000 | 13.5 | 6.2 | 40.0 | 43,000 | 19,900 | 410,300 |
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| Las Espadas | 79,000 | 11.7 | 5.0 | 14.3 | 9,200 | 3,900 | 36,200 |
| **Total** | **1,178,000** | **12.5** | **3.6** | **22.2** | **147,100** | **42,600** | **840,400** |

### *Review of material changes*

There was no change in the resource estimate during the six month period, except for mining depletion which was outside of the mineral resource.

### *Governance and internal controls*

The Company's procedures for the sample techniques and sample preparation are regularly audited by independent experts.

Assays are performed by independent internationally accredited laboratories with a QAQC program showing acceptable levels of accuracy and precision. The exploration assay results database is independently maintained by Expedio Services Pty Ltd.The mineral resource estimate was undertaken independently by Ashmore Advisory Pty Ltd.

### *COMPETENT PERSON STATEMENT*

The information in this Annual Mineral Resources Statement is based on, and fairly represents information and supporting documentation prepared by Mr Andrew Richards, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy and Member of the Australian Institute of Geoscientists. Mr Richards is a Director of the Company. Mr Richards has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Richards has approved the Statement as a whole and consents to its inclusion in the Annual Report in the form and context in which it appears.

## REVIEW OF OPERATIONS

### MEXICO – The Plomosas Zinc-Lead-Silver Project

During the reporting period, Consolidated Zinc focused on its flagship high grade zinc-lead-silver Plomosas Mine in the state of Chihuahua. Chihuahua hosts a prolific zinc-lead mineralised belt, and Plomosas has been mined periodically since 1943. CZL brought the mine back into production in September 2018.

The Plomosas Project covers 12 Exploration and Exploitation Concessions totalling 3,019ha in area with an extensive history of exploration and development in base metal operations. Plomosas is in the northern Mexican state of Chihuahua, which neighbours Texas, USA, and is accessed by a two-hour flight from Dallas (Figures 1 to 3).

Records show the Plomosas project to be in the global zinc industry's upper quartile for grade, with approx. 2.5 million tonnes of ore having been mined since 1943, with average historical grades of 15-25% Zinc (Zn) + 2-7% Lead (Pb) with 40-60 g/t Silver (Ag) and clean mineralogy.

Consolidated Zinc acquired a 51% equity ownership of Plomosas in 2015 with the option of increasing that equity to 90% or more. It increased its ownership to 90% in December 2018 through an increased shareholding in Minera Latin American Zinc S.A.P.I. de C.V. ("MLAZ").

Mineralisation in the Plomosas district exists as stratiform sheets of manto-style mineralisation with cross-cutting "chimneys" influenced by the location of crosscutting linking faults. The host rocks are predominantly limestone and shale with marbles present in areas including the hanging wall sequence. The hanging wall to the mineralisation is constrained by a zone of ductile-brittle deformation that is part of a larger 'horst' structure where a series of normal faults cross cut a sequence of folds and thrusts. This system of brittle deformation is evident along a series of normal sub vertical faults generally striking NW-SE.

At Plomosas, the average thickness of the manto style mineralisation is around 3m within a thicker sequence up to 25m thick containing limestone + shale ± marble that dips shallowly (10° – 40°) to the north east. Mining has extensively focused on the limestone units and shown the ore to be highly visible with sharp contacts.

Prior to CZL's restart of production, Plomosas had been mined in several stages since 1943 down to approximately 240 metres below surface via room and pillar stopes using traditional air leg drill and blast techniques. In places, historical production realised approximately 20,000 tonnes mineralisation per vertical metre with remnant material remaining. The mineralisation continues at depth and there is more than 7km strike of prospective stratigraphic horizon within the tenement package providing for excellent exploration potential and drill targeting outside the mine environment.


*Figure 1. Location of Plomosas mine in northern Chihuahua State, Mexico.*

CZL announced a maiden mineral resource for Plomosas in December 2016 and subsequently upgraded and increased to 1.178Mt grading 16.1% Zn+Pb and 22.2 g/t Ag comprised of both Indicated and inferred categories (refer Tables 1 and 2). This Mineral Resource estimate was reported in compliance with the JORC (2012) guidelines and announced to the ASX on 30 April 2018. All mining since September 2018 has mined mineralisation outside of the resource leaving this Mineral Resource unchanged.

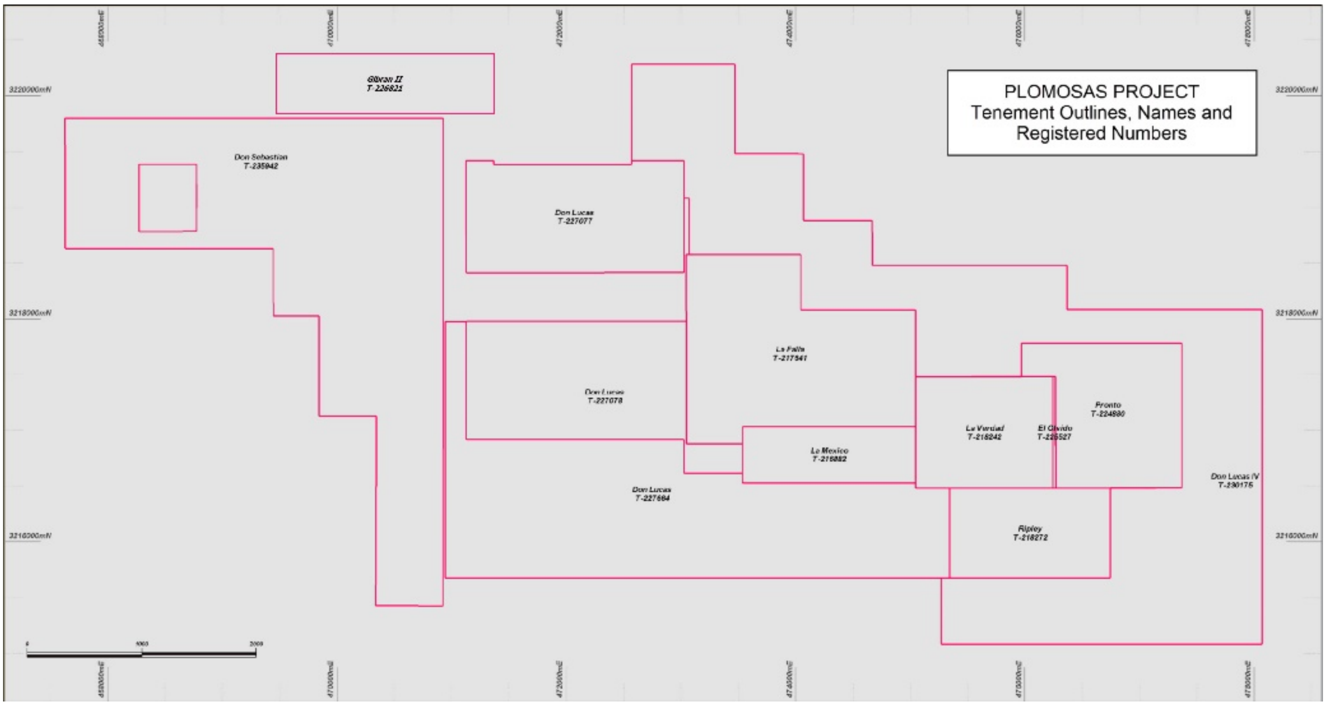


*Figure 2. Plomosas project tenement plan.*


*Figure 3. Aerial view of Plomosas mine in northern Chihuahua State, Mexico*

## MINING OPERATIONS

Mining recommenced on 19 September 2018, with the first ore mined from Level 5.

For the six months ended 31 December 2018, CZL mined 6,075 tonnes of ore at 9.6% zinc and 2.1% lead, from the 1000 and 992 stopes. Waste mined was 7,065 tonnes, with 409 metres of underground development.

Mining activities focused on increasing underground development to increase access to high grade ore stopes and mining high grade ore from existing stopes.

The major mining activities completed during the period included:

- Completion of the main decline bypass, reducing haul truck cycle times from 125 minutes to 60 minutes, significantly improving truck haulage to surface and a reduction in haul truck wear and tear;
- Level 5, 992RL development completed, providing access to the Southwest, Southwest, Northwest and 1000 stopes;
- Commencement of internal decline between Level 5 and Level 7, with the 972m RL level reached in February 2019 to access additional high grade ore;
- Trimming the walls of all haul drives to improve access for larger 12 tonne haul trucks;
- Installation of main surface fan and a secondary ventilation system to provide clean air for the operations; and
- Establishment of access to Level 6, where over 3,000 tonnes of high-grade ore had been broken, but not hauled to surface.

## EXPLORATION SUMMARY 2018

### MINE EXPLORATION AND RESOURCE DEFINITION

The Company placed exploration activities on hold during the reporting period to focus on the re-commencement of mining at its Plomosas zinc-lead-silver project in northern Mexico. Resource definition and exploration activities will recommence in 2019.

Significant discoveries of new economic mineralisation were encountered above the Level 5 access point to the Tres Amigos mineralisation and will be followed up with future resource definition drilling.

In the prior financial year, the Company announced a significant improvement in its JORC (2012) Mineral Resource estimate for the Plomosas which is summarised in the Annual Mineral Resource Summary. Drilling had been successful in increasing the resource by 22% in total tonnes and placed 53% of the mineralisation into the Indicated category. The Tres Amigos mineralisation in particular was shown to extend far further down dip than previously known resulting in a 32% increase in tonnage and a 165% increase of mineralisation in the Indicated category (Figures 4-5).

The resource estimate, independently completed by Ashmore Advisory Pty Ltd ("ASH"), is reported in accordance with the JORC (2012) reporting guidelines, and contains 1,178,000 tonnes @ 16.1% Zn+Pb and 22.2 g/t Ag for 189,700 tonnes of contained Zn+Pb metal in both Indicated and Inferred categories (Table 1). The mineral resource comes from the extensions both down dip and down plunge from existing mine development at Levels 5 to7.

The ASX announcement of 30 April, 2018 contains the details of the JORC resource estimate.

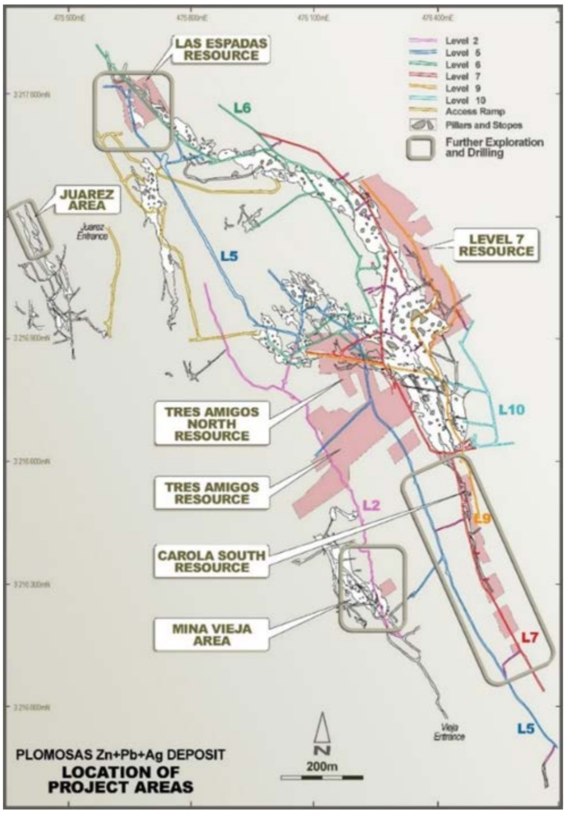


*Figure 4. Plan view of the Plomosas mine showing location of the work areas referred to in the text.*

Notably mineralisation within the Tres Amigos areas have comprised coarser grained sulphides and are low in lead (galena). Zn/Pb ratios range from 8:1 to 12:1 in contrast to Level 7 mineralisation hosted by the Mina Vieja unit which is closer to 2:1. This resulted in very good metallurgical recoveries of over 90% and production of high-quality zinc concentrates in the metallurgical test work.

Most of the resources are immediately accessible from underground with the Tres Amigos massive sulphides exposed in Level 5 and available for immediate mining access. Channel samples from this face have returned 2m at 19.1% Zn+Pb and this area was the focus of the recommencement of mining in September 2018 due to its grade, accessibility and its proximity nearer to surface.

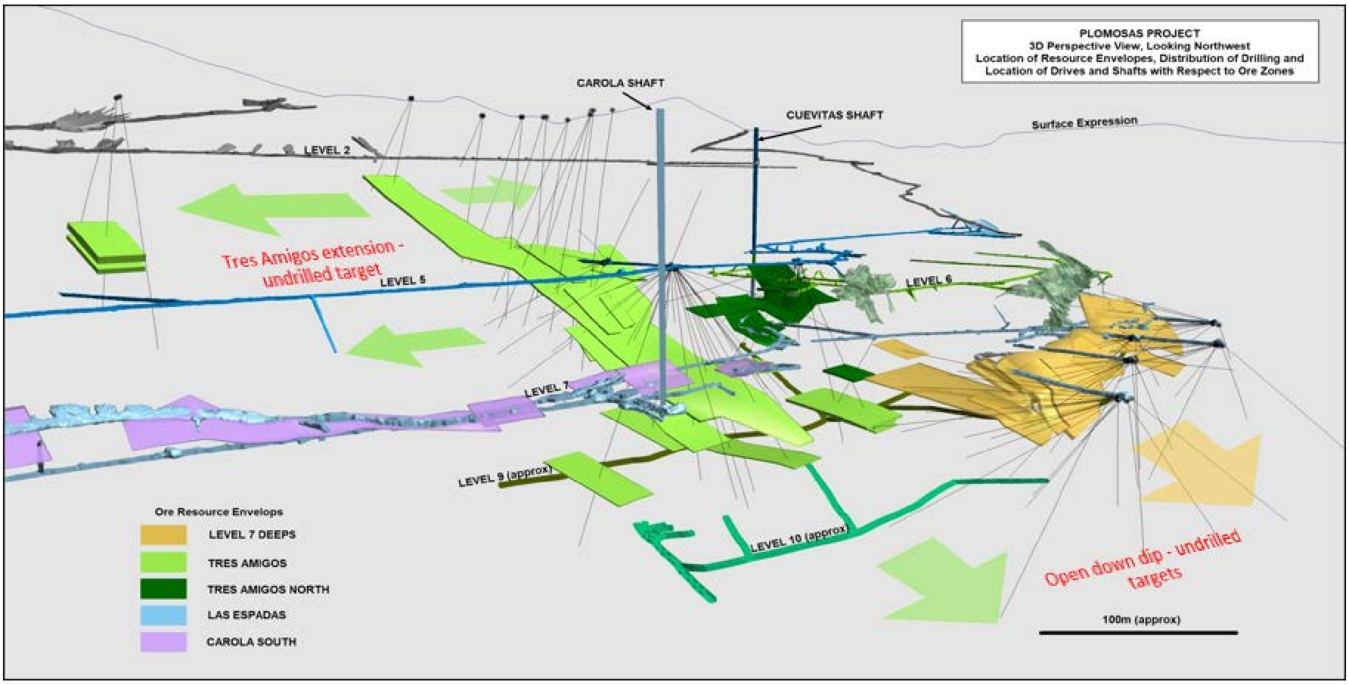


*Figure 5**:** Oblique view looking NW of Plomosas Mineral Resource wireframed solids. Relative spatial locations of resources are shown with proximity of shafts and underground development and areas with potential for future extension and infill resource drilling. Note extensive along strike and down dip potential identified for Tres Amigos and other mineralised horizons whose strike extents remain untested and constrained by the lack of drilling.*

**FUNDING**

***Debt and Equity***

In October 2018, CZL raised $1.509 million through the issue of 62,875,873 fully paid ordinary shares at $0.024 per share.

During the reporting period, CZL raised $1.550 million through convertible notes with the following key terms:

- Convertible at the 12 month anniversary or by election by lender, with the option of the lender to extend for a further 12 months;
- Interest payable at 10% p.a.;
- Convertible at the lower of A$0.01 and the price that the next capital raising is completed at for each share or A$0.015 if extended for a further 12 months.

The total value of convertible notes held by the company as at 31 December 2018 was $2.735 million

In December 2018, the Company obtained a short-term un-secured loans from its directors Stephen Copulos and Andrew Richards, of $0.400 million and $0.100 million, respectively. The loans attract a 10% interest rate and are repayable by July 2019.

In December 2018, the Company entered into a loan agreement with a shareholder, Jetosea Pty Ltd, under which $469,845 refundable to Jetosea from the 2017 capital raising, was converted to a loan. Interest on the loan is 10% and is calculated from the date of receiving the funds, being 30 May 2017. The loan balance, inclusive of interest, is repayable by 30 June 2019.

**CORPORATE**

***Board changes***

The Company undertook a review of its organisational and technical structure as it increased its focus on production. This was designed to make sure the experience and skill set of management could meet the future requirements of the company as it moves to project development.

- Ms Angela Pankhurst was appointed a Non-Executive Director effective 1 August 2018, bringing strong accounting, financial management and corporate governance background to the group.
- Mr Andrew Beigel resigned as a director on 17 October 2018.
- Chief Executive Officer, Mr Brad Marwood was appointed Managing Director on 4 February 2019.

The Directors of Consolidated Zinc Limited present their report, together with the financial statements of the Group, being the Company and its controlled entity, for the financial period ended 31 December 2018.

In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

**DIRECTORS DURING THE FINANCIAL PERIOD**

Directors in office during the period and at the date of this report are:

- Mr Stephen Copulos
- Mr Andrew Richards
- Ms Angela Pankhurst (appointed 1 August 2018)
- Mr Andrew Beigel (appointed 14 June 2018, resigned 17 October 2018)
- Mr Brad Marwood (appointed 4 February 2019)

**COMPANY SECRETARY**

- Mr Andrew Beigel (resigned 16 November 2018)
- Mr Anthony Italiano (appointed 16 November 2018)

**INFORMATION ABOUT THE DIRECTORS**

The names and further details of the Directors of Consolidated Zinc Limited during the financial period are:

**Names** | **Particulars**

**Stephen Copulos** (Chairman)

Mr Copulos joined Consolidated Zinc as a Non-Executive Chairman and is the Company's major shareholder and financial supporter. Mr Copulos has over thirty five years of experience in a variety of businesses and investments across a wide range of industries including mining, manufacturing, property development, food and hospitality. He has been the Managing Director of the Copulos Group of companies, a private investment group, since 1997 and has extensive experience as a company director of both listed and unlisted public companies in Australia, New Zealand, the UK and USA.

Mr Copulos also held directorships with the following listed companies in the 3 years immediately prior to the date of this report.

| Name | Date Appointed | Date Resigned |
|---|---|---|
| Crusader Resources Limited - former | March 2013 | April 2018 |
| Crusader Resources Limited - current | February 2019 | Current |
| Black Rock Mining Ltd | January 2015 | November 2018 |
| Restaurant Brands Ltd | April 2016 | Current |

| | |
|---|---|
| **Andrew Richards** (Executive Director) | Mr Richards is a geologist with more than 30 years experience in the international mining industry which included company management and project finance. He has worked at a senior level in both production and exploration over a wide variety of areas and commodities and has undertaken technical reviews, project audits and monitored project construction. He is a member of the AusIMM, AIG and the SEG. |

Mr Richards has worked extensively with gold, base metals, rare earths and industrial minerals in Australasia, Asia, Africa and South America. He is and has been on the boards of several listed companies on ASX and AIM and was previously Managing Director and CEO of two ASX listed companies operating in China.

Mr Richards also held directorships with the following listed companies in the 3 years immediately prior to the date of this report.

| Name | Date Appointed | Date Resigned |
|---|---|---|
| Hunter Resources plc | July 2014 | Current |
| Crusader Resources Limited | February 2019 | Current |

| | |
|---|---|
| **Angela Pankhurst** (Non-Executive Director) | Ms Pankhurst originally a Chartered Accountant undertaking audit and CFO roles, increasingly took on non-executive and executive roles in the international resource sector becoming Managing Director of Central Asia Resources Limited in 2011 when she managed the development of the Company's gold project in Kazakhstan. |

Ms Pankhurst has worked in both resource and non-resource sectors in numerous countries, including Australia, Kazakhstan, Nigeria, Dominican Republic and others in Africa and Asia.

Ms Pankhurst also held directorships with the following listed companies in the 3 years immediately prior to the date of this report.

| Name | Date Appointed | Date Resigned |
|---|---|---|
| Panterra Gold Limited | April 2012 | Current |
| Imritec Limited | September 2014 | Current |

| | |
|---|---|
| **Brad Marwood** (Managing Director) | Mr Marwood is a mining engineer and a highly experienced resources industry executive with more than 30 years of experience. He was instrumental in bringing into production the copper mines at Kipoi (DRC), numerous mines in Africa, Australia and Asia and has managed numerous Feasibility Studies and advanced stage resource projects in Australia, Africa, North America and Asia. |

He has worked in senior roles for groups such as Normandy, Dragon Mining, Lafayette, Moto Goldmines and Perseus Mining before his most recent role as Managing Director of Tiger Resources. Mr Marwood's involvement has seen growth in several companies with a significant increase in their market capitalisation and by protecting investments through restarting suspended mine projects.

Mr Marwood had not held directorships with any listed companies in the 3 years immediately prior to the date of this report.

**COMPANY SECRETARY**

***Anthony Italiano (appointed 16 November 2018)***

Mr Italiano is a Chartered Accountant with over 15 years of experience in the mining sector, primarily in Australia, Africa and North America. He brings a wealth of expertise in corporate governance, operations, financing, commodity marketing and trading from numerous projects and transactions he has been involved in over the years.

His previous roles include senior finance roles in Xstrata Nickel and Tiger Resources, where he led the transition from an explorer to a producer in the Democratic Republic of Congo.

***Andrew Beigel (resigned 16 November 2018)***

Mr Beigel has over 15 years of corporate experience across a range of industries and has held executive positions with other ASX listed companies in the resources sector. He holds a Bachelor of Commerce from Murdoch University and is a member of CPA Australia.

**PRINCIPAL ACTIVITIES**

Consolidated Zinc Limited is an Australian based, minerals exploration and production Company holding projects in Mexico. The Company's principal activities are to acquire exploration tenements holding potential for high demand mineral commodities, explore those tenements, discover economic mineral deposits and proceed to upgrade and develop those deposits into economically viable mining projects.

The Company's primary focus throughout the period was on the Plomosas Project in Mexico where mining recommenced in September 2018 and becoming a producer of high grade Zinc and Lead.

**OPERATIONS REVIEW**

The six-months ended 31 December 2018 was a transformation period for Consolidated Zinc, with the high-grade zinc-lead-silver Plomosas Project commenced production in September 2018 and increased its ownership in Plomosas.

During the period, Plomosas produced 6,075 tonnes of ore at 9.6% Zinc and 2.1% Lead. The ore was delivered to the Grupo Mexico concentrator at Santa Eulalia, where the Plomosas ore is sold under the Toll Treatment and Offtake Agreement with Grupo Mexico.

The Company entered into a Tolling and Offtake Agreement with Grupo Mexico in September 2018, to processing the Plomosas ore at the nearby Santa Eulalia concentrator and sell the resulting concentrate to the Grupo Mexico Potosi Smelter. The agreement with Grupo Mexico was for a one-year term.

In December 2018, the Company completed the acquisition of an additional 39% interest in the Mexican subsidiary that owns the Plomosas project to increase the Company's ownership to 90%. The purchase consideration comprised of cash consideration of A$750,000 and A$2,500,000 calculated at a share price of 2.34 cents per share payable to the Company's Mexican partners and to the vendors of Arena Exploration Pty Ltd.

**FINANCIAL REVIEW**

**Profit and Loss**

The Group recorded a profit after tax attributable to the owners of the Company for the period ended 31 December 2018 of $0.208 million (30 June 2018: loss of $3.610 million), representing earnings per share of 0.02 cents (30 June 2018: loss of 0.44 cents).

The profit was primarily due to the accounting treatment of the acquisition of non-controlling interest in the Plomosas Project.

**Balance Sheet**

Total current assets decreased by $0.265 million, mainly through decreases in cash of $0.073 million and receivables of $0.287 million and an increase in inventory of $0.094 million.

Total non-current assets increased by $1.888 million, primarily due to capitalisation of mine development expenditure of $1.575 million and an increase in receivables of $0.0248 million.

Total liabilities increased by $2.180 million to $5.856 million primarily due to a net increase in borrowings of $1.839 million to $3.833 million, and a net increase in all other liabilities of $0.341 million.

Total equity interests attributable to the Company's shareholders decreased by $2.898 million to $0.212 million, primarily through the recognition of negative non-controlling interests movements of $7.851 million resulting from the acquisition of additional 39% interest in the Company's Mexican subsidiary, Minera Latin American Zinc S.A.P.I de C.V. This was offset by an increase in issued capital of $4.791 million, comprised of share placement net proceeds of $3.986 million and conversion of convertible notes amounting to $0.806 million.

**Cashflow**

As at 31 December 2018, the Group held cash on hand and deposit of $0.262 million (30 June 2018: $0.335 million).

Net cash outflows from operations and investing activities were $1.912 million and $1.698 million respectively. Financing activities raised $3.536 million after capital raising expenses.

**Financing**

*Equity raisings*

In October 2018, CZL raised $1.509 million through the issue of 62,875,873 fully paid ordinary shares at $0.024 per share.

*Convertible Notes*

During the reporting period, CZL raised $1.550 million through convertible notes with the following key terms:

- Convertible at the 12-month anniversary or by election by lender, with the option of the lender to extend for a further 12 months;
- Interest payable at 10% p.a.;
- Convertible at the lower of A$0.01 and the price that the next capital raising is completed at for each share or A$0.015 if extended for a further 12 months.

The total value of convertible notes held by the company as at 31 December 2018 was $2.735 million

*Borrowings*

In December 2018, the Company obtained short-term un-secured loan facilities from its directors Stephen Copulos and Andrew Richards of $0.400 million and $0.100 million, respectively. The facilities are provided with a 10% interest rate and are repayable by July 2019.

In December 2018, the Company entered into a loan agreement with a shareholder, Jetosea Pty Ltd, under which $469,845 refundable to Jetosea Pty Ltd from the 2017 capital raising, was converted to a loan. Interest on the loan is 10% and is calculated from the date of receiving the funds, being 30 May 2017. The loan balance, inclusive of interest, is repayable by June 2019.

**Change in accounting policy**

During the period, the Group adopted a voluntary change in accounting policy whereby exploration and evaluation expenditure is expensed as incurred rather than capitalised. This change in accounting policy has been adopted retrospectively, and hence prior year's reported figures in this financial report may differ from figures reported in last years' financial report.

**DIVIDENDS PAID OR RECOMMENDED**

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS**

The Group will continue with the exploration, development and production of ore from the Plomosas mine in Mexico.
In evaluating the likely achievement of these outcomes, the following risk factors should be taken into consideration:

*Single Exploration and Development Asset*

The Group's only income generating asset is the Plomosas Project, and the Group is therefore at risk that adverse performance of the project resulting from internal or external factors may impact future returns.

*Operating costs and Production*

Production costs incurred by the Group are subject to a variety of factors including, but not limited to: fluctuations in input costs such as diesel, which are determined by global markets, changes in economic conditions which impact on margins required by contracting partners and changes in assumptions such as Mineral Resources.

Significant movements in a combination of these elements, could have a material adverse effect on operating costs of the Group.

*Estimate of Mineral Resources*

Due to the nature of Mineral Resources no assurance can be given that any particular level of recovery of minerals will be realised from the resources mined and processed through the Santa Eulalia plant, which may impact on the future financial and operational performance of the Group.

**Going Concern**

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

*Working Capital Deficiency*

As at balance date, the consolidated entity had a net working capital deficiency of $3.082 million. Included in the working capital deficiency are current liabilities of $3.833 million, which include convertible notes and borrowings and associated accrued interest payable, more fully described in Note 14.

The Directors believe the going concern assumption is appropriate, as at the date of this report:

- The assumptions utilised in the cashflow forecast (the forecast zinc/lead prices, production volumes and operating costs) demonstrate surplus cashflow generated by the commencement of mining will be sufficient to repay the unsecured loans and other current liabilities;
- On 1 April 2019, the Company agreed with the holders of the convertible notes maturing between April and July 2019 to extend the maturity date to 30 June 2020. The principal balance of these convertible notes is $1.400 million, with all other terms including the conversion price remain the same. The extension of the maturity date of the convertible notes to entities related to Stephen Copulos and Andrew Richards totalling $0.950 million is subject to shareholder approval.
- On 1 April 2019, the Company announced it had executed a new agreement to toll treat Plomosas ore with a well-known toll treatment provider Triturado y Minerales La Piedrera S.A. de CV, who operate the Aldama third party concentrator facility (the "Aldama Plant"), located close to the Plomosas Mine. The new agreement is for 18 months, extendable at 6 month extensions by the Company.
- The company is currently in advanced negotiations with a number of parties including Industrias Penoles S.A.B de C.V. and Trafigura Beheer BV to sell the Plomosas Zinc and Lead Concentrates to be produced from the Aldama ore tolling facility; and
- Legal opinions obtained by the company confirms, that it has no outstanding breaches in relation to the claim to terminate the land use agreement and there is a high probability of success to appeal against the Federal Court of Mexico.

Based on the above, the Directors have reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and the Directors consider that the going concern basis of preparation to be appropriate for these financial statements.

If the Group is unable to continue as a going concern, it may be required to realise its assets and/or settle its liabilities other than in the ordinary course of business and at amounts different to those stated in the financial statements.

**ENVIRONMENTAL REGULATION AND PERFORMANCE**

The exploration activities of entities in the consolidated entity are subject to environmental regulations imposed by various regulatory authorities, particularly those relating to ground disturbance and the protection of rare and endangered flora and fauna. The Plomosas mine had an environmental health and safety audit completed during the first quarter 2019 that found no environmental issues requiring attention.

Entities in the consolidated entity have complied with all environmental requirements up to the date of this report.

**CORPORATE STRUCTURE**

Consolidated Zinc Limited (ACN 118 554 359) is a company limited by shares that is incorporated and domiciled in Australia. It listed on the Australian Securities Exchange on 15 June 2006 (ASX: CZL).

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Other than set out below, there have not been any other significant changes in the state of affairs of the Group during the financial period.

- On 10 July 2018, the Company announced Ms Angela Pankhurst had accepted the position of Non-Executive Director and would join the Board on 1 August 2018.

- On 3 August 2018, the Company announced it had raised $300,000 from the issue of convertible notes on a 12 month term, convertible at the lower of 1 cent per share or the next capital raising price and a coupon interest rate of 10.0% per annum from existing major shareholders.

- On 10 August 2018, the Company announced it received a claim by Pandion Minerals Pty Ltd ("Pandion") pursuant to which Pandion claims to be conditionally entitled to a 10% in the Plomosas Project in Mexico being free carried until the BFS is completed.

  The Company considers the claim to be unfounded, and, if the claim is pursued by Pandion, the Company will defend the claim vigorously.

- On the 5 September 2018, the Company announced it would recommence mining at Plomosas immediately following the execution of an ore toll treatment and zinc/lead concentrate offtake agreement with Grupo Mexico. The Company raised $1.25 million from the issue of convertible notes to existing major shareholders with a 12 month term (extendable to 24 months by mutual agreement) at a 10% coupon interest rate, convertible at 1.0 cent per share (if converted within 12 months) or 1.5 cents per share (if converted between 12-24 months).

- On 20 September 2018, the Company announced it had mined and delivered the first ore from the Tres Amigos deposit at Plomosas to the Santa Eulalia concentrator owned by Grupo Mexico.

- On 25 September 2018, the Company announced a share purchase plan (SPP) to eligible shareholders at an issue price of 2.4 cents per share with a maximum subscribtion subscription for 62,500,000 shares to raise $1.5 million (subject to the Boards discretion). Funds raised from the SPP were used to fund the purchase of additional equity in the Mexican subsidary that has ownership of the Plomosas Project and for working capital.

- On 24 December 2018, the Group acquired 39% from the minority interest holder MLAZ, bringing its interest in the Mexican subsidiary to 90%. The total cost of acquisition was $3.250 million, of which $0.750 was paid in cash and the remaining $2.500 million was settled with issue of CZL shares.

**EVENTS AFTER THE REPORTING DATE**

Other than set out below, no matters or circumstances have arisen since the end of the period ended 31 December 2018 which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods:

- On 22 January 2019, the Company issued 7,096,333 fully paid ordinary shares on conversion of the remaining balance of the $677,500 convertible loan from the Copulos Group at a conversion price of 1.2 cents per share. In addition, 1,500,000 fully paid orindary shares were issued on the conversion of performance rights following satisfaction of specific criteria with no consideration payable.

- On 24 January 2019, the Company issued 2,950,000 fully paid orindary shares were issued on the conversion of performance rights following satisfaction of specific criteria with no consideration payable.

- On 4 February 2018, the Company's Chief Executive Officer, Mr Brad Marwood, joined the board as Managing Director.

- On 22 March 2019, the Company advised that it was appealing a decision by a single judge of the Federal Court of Mexico that would allow termination of MLAZ's Land Use Agreement with the local rancher on whose land the Plomosas mine is. The Company's lawyers have advised that there is no basis in contract for the termination and there is a high probability of the appeal being successful.

- On 1 April 2019, the Company agreed with the holders of the convertible notes maturing between April and July 2019 to extend the maturity date to 30 June 2020.

- On 1 April 2019, the Company announced it had executed a new agreement to toll treat Plomosas ore through the Aldama third party processing facility, following the notification received from Grupo Mexico to terminate the ore toll treatment and offtake agreement in accordance with the 60 days notice provision.

## INFORMATION ON DIRECTORS

The Table below sets out each Director's relevant interest in shares or options over shares of the Company as at the date of this report:

| Current Director | Number of ordinary shares | Number of options granted | Number of options vested | Number of options unvested | Expiry date | Exercise price | Performance Rights |
|---|---|---|---|---|---|---|---|
| Stephen Copulos | 312,114,719 | - | - | - | - | - | - |
| - Unlisted Options | - | 11,111,111 | 11,111,111 | - | 31 Dec 2020 | $0.025 | - |
| - Performance Rights | - | - | - | - | - | - | 3,500,000 |
| | | | | | | | |
| Andrew Richards | 6,120,000 | - | - | - | - | - | - |
| - Unlisted Options | | 2,500,000 | 2,500,000 | - | 5 June 2020 | $0.06 | - |
| - Performance Rights | - | - | - | - | - | - | 3,500,000 |
| | | | | | | | |
| Brad Marwood | 2,729,015 | - | - | - | - | - | - |
| - Unlisted Options | - | 3,000,000 | 2,000,000 | 1,000,000 | 30 June 2025 | 0.06 | |
| - Performance Rights | - | - | - | - | - | - | 4,750,000 |
| | | | | | | | |
| Angela Pankhurst | 300,000 | - | - | - | - | - | - |
| - Unlisted Options | | - | - | - | - | - | - |
| - Performance Rights | - | - | - | - | - | - | - |

## MEETINGS OF DIRECTORS

During the reporting period, 9 formal meetings of Directors (including committees of directors) were held. Attendances by each Director during the period were as follows:

| | Directors' Meetings | |
|---|---|---|
| | Number eligible to attend | Number Attended |
| **Directors** | | |
| Stephen Copulos | 9 | 9 |
| Andrew Richards | 9 | 9 |
| Angela Pankhurst | 8 | 8 |
| Andrew Beigel | 5 | 5 |

The full Board fulfils the role of remuneration, nomination and audit committees.

## INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial period, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

## INDEMNITY AND INSURANCE OF AUDITOR

The company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor. During the financial period, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

**REMUNERATION REPORT (Audited)**

The full Board fulfils the roles of remuneration committee and is governed by the Group's adopted remuneration policy.

**Remuneration Policy**

This policy governs the operations of the Board. The Board shall review and reassess the policy at least annually and obtain the approval of the Board.

**General Director Remuneration**

Shareholder approval must be obtained in relation to the overall limit set for non-executive directors' fees. The Directors shall set individual Board fees within the limit approved by shareholders.

Shareholders must also approve the framework for any broad-based equity-based compensation schemes and if a recommendation is made for a director to participate in an equity scheme, that participation must be approved by the shareholders.

**Executive Remuneration**

The Group's remuneration policy for executive directors and senior management is designed to promote superior performance and long-term commitment to the Group. Executives receive a base remuneration which is market related and may be entitled to performance-based remuneration at the ultimate discretion of the Board.

Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive market and business conditions where it is in the interests of the Group and shareholders to do so.

Executive remuneration and other terms of employment are reviewed annually by the Remuneration Committee having regard to performance, relevant comparative information and expert advice.

The Committee's reward policy reflects its obligation to align executive's remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Group. The main principles of the policy are:

- **a)** reward reflects the competitive market in which the Group operates;
- **b)** individual reward should be linked to performance criteria; and
- **c)** executives should be rewarded for both financial and non-financial performance.

The total remuneration of executives and other senior managers consists of the following:

- **a)** salary - executive directors and senior managers receive a sum payable monthly in cash;
- **b)** short term incentives - executive directors and nominated employees are eligible to participate in performance employee share option and performance rights schemes and a bonus or profit participation plan if deemed appropriate. Any option or performance right issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board, however, considers it appropriate to retain the flexibility to issue options and performance rights to executives and nominated employees outside of approved employee option and performance right plans in exceptional circumstances;
- **c)** long term incentives - executive directors may participate in share option and performance right schemes with the prior approval of shareholders. Nominated employees may also participate in employee share option and performance right schemes, with any option or performance right issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board, however, considers it appropriate to retain the flexibility to issue options and performance rights to executives and nominated employees outside of approved employee option and performance right plans in exceptional circumstances; and
- **d)** other benefits - executive directors and senior managers are eligible to participate in superannuation schemes and other appropriate additional benefits.

**Non-executive Remuneration**

Shareholders approve the maximum aggregate remuneration for non-executive directors. The Remuneration Committee recommends the actual payments to directors and the Board is responsible for ratifying any recommendations, if appropriate. The maximum aggregate remuneration approved for non-executive directors is currently $250,000.

It is recognised that non-executive directors' remuneration is ideally structured to exclude equity-based remuneration. However, whilst the Group remains small and the full Board, including the non-executive directors, are included in the operations of the Group more closely than may be the case with larger companies the non-executive directors are entitled to participate in equity-based remuneration schemes.

All directors are entitled to have their indemnity insurance paid by the Group.

### Bonus or Profit Participation Plan

Performance incentives may be offered to executive directors and senior management of the Group through the operation of a bonus or profit participation plan at the ultimate discretion of the Board.

### Directors and Key Management Personnel

The following persons acted as Directors and/or Key Management Personnel (KMP) of the Group during or since the end of the financial period:

| | |
|---|---|
| Mr. S. Copulos | Chairman (Non-Executive) |
| Mr. Brad Marwood | Chief Executive Officer – appointed 4 March 2018 |
| Mr. Andrew Richards | Director (Executive) |
| Mr. Anthony Italiano | Company Secretary and Chief Financial Officer - appointed 16 November 2018 |
| Ms. Angela Pankhurst | Director (Non-Executive) – appointed 1 August 2018 |
| Mr. Brad Marwood | Chief Executive Officer – appointed 4 March 2018 |
| Mr. Steve Boda | Country Manager Minera Latin American Zinc (appointed 1 July 2018) |
| Mr. Andrew Beigel | Company Secretary and Director – appointed 14 June 2018, resigned as a Director on 17 October 2018 and Company Secretary on 16 November 2018 |

### Details of Remuneration for the period ended 31 December 2018

The remuneration for each Director and the senior Executive of Consolidated Zinc Limited during the period and the previous year was as follows:

| Key Management Person | Salary and Fees | Superannuation | Share based Payments | Total Remuneration | Performance-based Remuneration |
|---|---|---|---|---|---|
| | Short-term Benefits | Post-employment Benefits | | | |
| | $ | $ | $ | $ | % |
| **31 December 2018** | | | | | |
| Stephen Copulos* | 50,000 | - | 1,438 | 51,438 | 3 |
| Andrew Richards* | 141,660 | - | 1,438 | 143,098 | 1 |
| Angela Pankhurst | 16,667 | 1,583 | - | 18,250 | - |
| Brad Marwood* | 156,646 | - | 20,911 | 177,557 | 12 |
| Anthony Italiano** | 35,200 | - | - | 35,200 | - |
| Andrew Beigel | 22,831 | 1,735 | - | 24,566 | - |
| Steve Boda* | 130,813 | - | - | 130,813 | - |
| | 553,817 | 3,318 | 23,787 | 580,922 | |
| **30 June 2018** | | | | | |
| Stephen Copulos* | 100,000 | - | - | 100,000 | - |
| William Dix | 128,331 | - | - | 128,331 | - |
| Andrew Richards* | 164,000 | - | - | 164,000 | - |
| Eduardo Valenzuela* | 25,000 | - | 27,400 | 52,400 | 52 |
| Luis Rogelio Martinez Valles | 35,164 | - | - | 35,164 | - |
| Andrew Beigel | 54,795 | 5,205 | - | 60,000 | - |
| Brad Marwood* | 68,094 | - | 12,659 | 80,753 | 16 |
| | 575,384 | 5,205 | 40,059 | 620,648 | |

* Salary and fees paid or payable to related entities for the following KMPs (excluding GST):
- Director fees for Andrew Richards are paid to Arc Resources Pty Ltd, a company of which Mr. Richards is a director.
- Director fees for Stephen Copulos are paid to The Eyeon Investments Family Trust, a trust related to Mr. Copulos.
- Executive fees for Brad Marwood are paid to Corporate Mining Pte Ltd, a company of which Mr. Marwood is a director.
- Fees for Steve Boda are paid to Kasy Investments Pty Ltd, a company of which Mr. Boda is a director.
- Director fees for Eduardo Valenzuela are paid to Andes Consulting Pty Ltd, a company of which Mr. Valenzuela is a director.

** Remuneration for Mr Anthony Italiano includes salary and fees paid or payable to Mr Italiano from the date of him becoming a KMP, being 16 November 2018.

**Other transactions with Key Management Personnel**

The Company has an outstanding balance receivable from Steve Boda in respect to a relocation advance of $20,148. The advance was provided to Mr Boda to purchase a vehicle upon relocation to Mexico. The advance is interest-free and is repayable within twelve months.

**Shares held by KMP**

| Key Management Person | Held at start of period/year on appointment | Conversion of debt instrument | Acquired/ conversion of performance rights | Disposed/ Balance on Resignation* | Held at period/year end |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| Stephen Copulos | 215,395,821 | 49,362,000 | 37,153,456 | (10,000,000) | 291,911,277 |
| Andrew Richards | 2,370,000 | - | 3,750,000 | - | 6,120,000 |
| Angela Pankhurst | - | - | - | - | - |
| Brad Marwood | - | - | 429,015 | - | 429,015 |
| Anthony Italiano | - | - | - | - | - |
| Andrew Beigel | 62,500 | - | - | (62,500)* | - |
| Steve Boda | - | - | 1,325,000 | - | 1,325,000 |
| | 217,828,321 | 49,362,000 | 42,657,471 | (10,062,500) | 299,785,292 |
| **30 June 2018** | | | | | |
| Stephen Copulos | 145,187,488 | 26,875,000 | 43,333,333 | - | 215,395,821 |
| William Dix | 2,730,000 | - | - | (2,730,000) | - |
| Andrew Richards | 2,370,000 | - | - | - | 2,370,000 |
| Andrew Beigel | 62,500 | - | - | - | 62,500 |
| Brad Marwood | - | - | - | - | - |
| Eduardo Valenzuela | - | - | - | - | - |
| | 150,349,988 | 26,875,000 | 43,333,333 | (2,730,000) | 217,828,321 |

**Options over ordinary shares held by KMP**

| Key Management Person | Held at start of period/year | Granted as compensation | Lapsed or expired | Other changes* | Held at the end of period/year | Vested and exercisable at the end of the period/year |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| Stephen Copulos | 26,725,000 | - | (15,613,889) | - | 11,111,111 | 11,111,111 |
| Andrew Richards | 2,500,000 | - | - | - | 2,500,000 | 2,500,000 |
| Angela Pankhurst | - | - | - | - | - | - |
| Brad Marwood | 3,000,000 | - | - | - | 3,000,000 | 2,000,000 |
| Anthony Italiano | - | - | - | - | - | - |
| Andrew Beigel | - | - | - | - | - | - |
| Steve Boda | 1,250,000 | - | - | - | 1,250,000 | 1,250,000 |
| | 33,475,000 | - | (15,613,889) | - | 17,861,111 | 16,861,111 |
| **30 June 2018** | | | | | | |
| Stephen Copulos | 15,613,889 | - | - | 11,111,111 | 26,725,000 | 26,725,000 |
| William Dix | 5,000,000 | - | (5,000,000) | - | - | - |
| Andrew Richards | 2,500,000 | - | - | - | 2,500,000 | 2,500,000 |
| Luis Rogelio Martinez Valles | - | - | - | - | - | - |
| Brad Marwood | - | 3,000,000 | - | - | 3,000,000 | - |
| Eduardo Valenzuela | - | - | - | - | - | - |
| Andrew Beigel | - | - | - | - | - | - |
| | 23,113,889 | 3,000,000 | (5,000,000) | 11,111,111 | 32,225,000 | 29,225,000 |

*Free attaching options on acquisition of shares (three free options for each share) allotted in the December 2017 share subscription.

No options were exercised during the six months ended 31 December 2018 and during the 12 months ended 30 June 2018.

**Performance Rights held by KMP**

| Key Management Person | Held at start of period/year | Granted as compensation | Lapsed or expired | Held at the end of period/year | Vested and exercisable at the end of period/year |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| Stephen Copulos | 1,500,000 | 2,750,000 | - | 4,250,000 | - |
| Andrew Richards | 1,500,000 | 2,750,000 | - | 4,250,000 | - |
| Angela Pankhurst | - | - | - | - | - |
| Brad Marwood | 3,000,000 | - | - | 3,000,000 | - |
| Anthony Italiano | - | - | - | - | - |
| Andrew Beigel | - | - | - | - | - |
| Steve Boda | 500,000 | - | - | 500,000 | - |
| | 6,500,000 | 5,500,000 | - | 12,000,000 | - |
| **30 June 2018** | | | | | |
| Stephen Copulos | 2,000,000 | - | (500,000) | 1,500,000 | - |
| Eduardo Valenzuela | - | 1,500,000 | (1,500,000) | - | - |
| Brad Marwood | - | 3,000,000 | - | 3,000,000 | - |
| William Dix | 2,666,666 | - | (2,666,666) | - | - |
| Andrew Richards | 2,000,000 | | (500,000) | 1,500,000 | - |
| Andrew Beigel | - | - | - | - | - |
| Luis Rogelio Martinez Valles | - | - | - | - | - |
| | 6,666,666 | 4,500,000 | (5,166,666) | 6,000,000 | - |

**Share-based remuneration**

***Shares***

No shares were granted as compensation to KMPs or employees of the Company or the Group.

***Options***

No options were granted as compensation to KMPs or employees of the Company or the Group.

***Performance Rights***

A total of 5,500,000 Performance Rights Options were issued to the KMPs as an incentive component of their remuneration. The performance rights are linked to the achievement of strategic goals and the long term performance objectives of the Company. Satisfaction of performance conditions and vesting of the performance rights is determined by the Board.

The performance rights were granted to directors, Stephen Copulos and Andrew Richards, in the following tranches, with the vesting conditions and milestone dates set out below:

| Class | Performance Condition | S Copulos | A Richards | Total Granted | Grant date | Expiry date |
|---|---|---|---|---|---|---|
| Class D | The Company announces a JORC compliant resource estimate comprising of any or all of the measured, indicated and/or inferred categories containing not less than 1.75MT at a minimum grade of 15% Zn+Pb or 275kt Zn and Pb contained metal at a minimum grade of 11%. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/12/2019 |
| Class E | The Company announces a JORC compliant resource estimate comprising of any or all of the measured, indicated and/or inferred categories containing not less than 2.0MT at a minimum grade of 15% Zn+Pb or 320kt Zn and Pb contained metal at a minimum grade of 11%. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/06/2020 |
| Class F | The Company announces a JORC compliant resource estimate comprising of any or all of the measured, indicated and/or inferred categories containing not less than 2.5MT at a minimum grade of 15% Zn+Pb or 400kt Zn and Pb contained metal at a minimum grade of 11%. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/12/2020 |
| Class G | The company achieving >3,000tpm production levels of plant feed, being anything mined and hauled to the surface from the Company's projects. | 250,000 | 250,000 | 500,000 | 20/12/2018 | 30/12/2019 |
| Class H | The company achieving >8,000tpm production levels of plant feed, being anything mined and hauled to the surface from the Company's projects. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/06/2020 |
| Class I | The company achieving >16,000tpm production levels of plant feed, being anything mined and hauled to the surface from the Company's projects. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/12/2020 |
| | | 2,750,000 | 2,750,000 | 5,500,000 | | |

The performance rights were issued at nil exercise price. The fair value of all classes issued to each director is $49,500, which amounts to a total of $99,000. During the period, a total of $2,876 was expensed in respect to these performance rights.

**Terms and conditions of the share-based payment arrangements**

The fair values at grant date of performance rights issued are determined using a Black-Scholes option pricing model or Monte Carlo simulation that takes into account the exercise price, the term of the rights, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, and the risk free interest rate for the term of the rights.

The model inputs for performance rights granted during the period ended 31 December 2018 were as follows:

| | Class D | Class E | Class F | Class G | Class H | Class I |
|---|---|---|---|---|---|---|
| Grant date | 20-Dec-18 | 20-Dec-18 | 20-Dec-18 | 20-Dec-18 | 20-Dec-18 | 20-Dec-18 |
| Expiry date | 30-Dec-19 | 30-Jun-20 | 30-Dec-20 | 30-Dec-19 | 30-Jun-20 | 30-Dec-20 |
| Exercise price | nil | nil | nil | nil | nil | nil |
| Share price at grant date (cents) | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |

Each right is converted to one ordinary share upon vesting. The performance rights vest when the vesting (performance) conditions are met. No performance rights will vest if the conditions are not satisfied, hence the minimum value of the performance rights yet to vest is nil. The maximum value of the performance rights yet to vest has been determined as the amount of the grant date fair value of the performance rights that is yet to be expensed.

***Amendments of terms for options and performance rights issued in prior periods***

On 14 January 2019, the Board varied the expiry dates of options and performance rights granted as compensation to Brad Marwood in the previous financial year. The variation reflects the intention of the Board at the time the instruments were granted. The expiry dates disclosed in the 30 June 2018 remuneration report refer to dates by which the respective vesting conditions were to be met. The amendment does not affect the fair value of the options and performance rights or the share-based payment expense recognised in respect to these instruments in the previous year.

The amended terms of the options and performance rights are as follows:

| Class of equity instruments | Performance Condition | Expiry Date per 30 June 2018 annual report | Corrected Expiry Date |
|---|---|---|---|
| Class AA Performance Rights | (a) Upon the Company obtaining 90% equity in the Plomosas Project and commencement of early production;<br>or<br>(b) A Takeover Event occurs<br>To achieve by 31 December 2018 | 31 December 2018 | 31 March 2019 |
| Class BB Performance Rights | Upon the commissioning of plant and mine operations;<br>or<br>A Takeover Event occurs<br>To achieve by 30 September 2019 | 30 September 2019 | 31 December 2019 |
| Class CC Performance Rights | Upon achieving production levels equal to or greater than 200,000tpa;<br>or<br>A Takeover Event occurs<br>To achieve by 30 June2020 | 30 June 2020 | 30 September 2020 |
| Class AA Options | The date on which the Company achieves 90% equity in the Plomosas Project and commencement of early production.<br>To achieve by 31 December 2018. | 31 December 2018 | 31 December 2023 |
| Class BB Options | The date on which the Company commissions plant and mine operations.<br>To achieve by 30 September 2019. | 30 September 2019 | 30 September 2024 |
| Class CC Options | The date on which the Company achieves the production levels of greater than 200,000tpa.<br>To achieve by 30 June 2020. | 30 June 2020 | 30 June 2025 |

**Shares Issued on Exercise of Compensation Options**

No options granted as compensation in prior years were exercised through the current or prior financial period.

**Employment contracts of directors and senior executives**

Mr Andrew Richards is employed through a consultancy agreement with ARC Resources Pty Ltd ("ARC") of which he is a Director. The fee ARC receives for Mr Richards services is $100,000 per annum plus statutory superannuation. If Mr Richards performances services greater than 12 days per month, an additional daily rate of $1,000 is payable. The service contract is on a three year term which expired during the current financial period and has been extended on the same terms and conditions until a revised service contract is entered.

Mr Brad Marwood is employed through a consultancy agreement with Corporate Mining Resources Pte Ltd ("CMR") of which he is a Director. The fee CMR receives for Mr Marwood' services is $250,000 per annum plus statutory superannuation. CMR entered into a four year agreement with the Company commencing 4 March 2018, in the event employment is terminated by the Company other than for gross misconduct, the full balance of the remaining term is payable. CMR can terminate the agreement with 3 months' notice.

Mr Steve Boda is employed through a consultancy agreement with Kasy Investments Pty Ltd ("Kasy") of which he is a Director. The fee Kasy receives for Mr Boda's services is US$175,000 per annum plus statutory superannuation. The agreement is reviewed every 12 months and extended upon notice of the Company. Mr Boda's current agreement is until December 2020; it can be terminated by either party at any time, by written notice.

The Chief Financial Officer and Company Secretary, Mr Anthony Italiano, is employed by the Company on an ongoing basis, at a daily rate of $923 inclusive of statutory superannuation. The employment can be terminated by either the Company or Mr Italiano, without notice.

**Consolidated entity performance and link to remuneration**

There is no director remuneration directly linked to performance of the consolidated entity. A portion of bonus and incentive payments are at the discretion of the Board.

**Voting and comments made at the Company's 2018 Annual General Meeting ("AGM")**

The 30 June 2018 Remuneration Report was voted for without any commentary or discussion at the 2018 AGM, on a show of hands with proxy votes for of 188,967,949 and votes against of 2,755,000.

***[End of Remuneration Report - Audited]***

## SHARES UNDER OPTION

At the date of this report, the unissued ordinary shares of Consolidated Zinc Limited under option are:

| Grant Date | Date of Expiry | Exercise Price | Number Under Option |
|---|---|---|---|
| 5 June 2015 | 5 June 2020 | $0.06 | 2,500,000 |
| Various | 31 December 2020 | $0.06 | 40,000,000 |
| Various | 31 December 2020 | $0.025 | 57,283,882 |
| Various | 30 June 2023 | $0.06 | 1,250,000 |
| 4 March 2018 | 31 December 2023 | $0.06 | 1,000,000 |
| 4 March 2018 | 30 September 2024 | $0.06 | 1,000,000 |
| 4 March 2018 | 30 June 2025 | $0.06 | 1,000,000 |
| **Total options over ordinary shares** | | | 104,033,882 |

At the date of this report, the Company has following performance rights on issue:

| Date of Expiry | Number of performance rights |
|---|---|
| 30 September 2019 | 2,000,000 |
| 30 December 2019 | 1,800,000 |
| 31 December 2019 | 5,600,000 |
| 30 June 2020 | 4,500,000 |
| 30 September 2020 | 1,000,000 |
| 30 December 2020 | 4,250,000 |
| 30 June 2023 | 500,000 |
| | 19,650,000 |

Performance rights vest and are convertible into ordinary shares upon achieving performance targets, on or before their respective expiry dates.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings. The Company was not a party to any such proceedings during the period.

## NON-AUDIT SERVICES

No non-audit services were performed during the period.

### Officers of the company who are former audit partners of Butler Settineri (Audit) Pty Ltd

There are no officers of the company who are former audit partners of Butler Settineri (Audit) Pty Ltd.

### Auditors

Butler Settineri (Audit) Pty Ltd were appointed as auditors at the AGM on 28 November 2014 and continues in office in accordance with section 327 of the Corporations Act 2001.

**AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration for the six months ended 31 December 2018 has been received and is included within this financial report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

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

**BRAD MARWOOD**
**Managing Director**

DATED this 1st day of April 2019

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of Consolidated Zinc Limited for the six month period ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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

The declaration is in respect of Consolidated Zinc Limited and the entities it controlled during the period.

BUTLER SETTINERI (AUDIT) PTY LTD

LUCY P GARDNER
Director

Perth
Date: 1 April 2019


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RCA No. 289109 ABN 61 112 942 373
*Liability limited by a scheme approved under Professional Standards Legislation*

# Consolidated statement of profit or loss and other comprehensive income for the six months ending 31 December 2018

| | Note | Six months to 31 December 2018 $ | Year ended 30 June 2018* $ |
|---|---|---|---|
| Revenue | 4(a) | 685,491 | - |
| Cost of sales | | (123,601) | - |
| | | 561,890 | - |
| Other income | | - | 9,673 |
| Exploration expenses | 3 | (365,126) | (3,496,000) |
| Administrative expense | 4(b) | (518,793) | (555,363) |
| Employee expenses | 5 | (591,042) | (660,340) |
| Foreign exchange loss gain/(loss) | | 152,850 | (136,986) |
| Loss on disposal of financial asset | | - | (98,551) |
| Interest expense | | (126,125) | (16,767) |
| Finance expense | | (511,497) | - |
| Loss from continuing operations before income tax expense | | (1,397,843) | (4,954,334) |
| Income tax expense | 6 | - | - |
| Loss from continuing operations after income tax expense | | (1,397,843) | (4,954,334) |
| **Discontinued operations** | | | |
| Loss for the period from discontinued operations | | - | (7,899) |
| ***Net loss for the period*** | | (1,397,843) | (4,962,233) |
| ***Other comprehensive income/(loss)*** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Translation difference on foreign exchange attributable to: | | | |
| Equity holders of the Company | | (69,923) | (508,833) |
| Non-controlling interests | | (655,414) | 29,895 |
| Total comprehensive loss for the period | | (2,123,180) | (5,441,171) |
| **Net profit/(loss) is attributable:** | | | |
| Owners of Consolidated Zinc Limited | | 208,165 | (3,610,402) |
| Non-controlling interests | | (1,606,008) | (1,351,831) |
| Total loss from continuing operations | | (1,397,843) | (4,962,233) |
| **Total comprehensive loss is attributable to:** | | | |
| Owners of Consolidated Zinc Limited | | 138,242 | (4,119,235) |
| Non-controlling interests | | (2,261,422) | (1,321,936) |
| Net loss for the period | | (2,123,180) | (5,441,171) |
| **Earnings per share** | | | |
| Basic and diluted loss per share from continuing and discontinued operations (cents) | 7 | 0.02 | (0.44) |
| Basic and diluted loss from continuing operations (cents) | 7 | 0.02 | (0.44) |
| Basic and diluted loss from discontinued operations (cents) | 7 | - | - |

*Restated as a result of change in accounting policy (note 3(i)) and a correction of error (note 22).

*The accompanying notes form part of these financial statements*

# Consolidated statement of financial position as at 31 December 2018

| | Note | 31 December 2018 $ | 30 June 2018* $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 8 | 262,068 | 335,489 |
| Trade and other receivables | 9 | 2,416,991 | 2,703,657 |
| Inventory | | 94,534 | - |
| Equity investments at fair value through profit or loss | | 800 | 1,000 |
| TOTAL CURRENT ASSETS | | 2,774,393 | 3,040,146 |
| **NON-CURRENT ASSETS** | | | |
| Trade and other receivables | 9 | 326,452 | 78,513 |
| Plant and equipment | 11 | 212,674 | 147,753 |
| Mine properties and development | 12 | 1,575,095 | - |
| Exploration expenditure | 3(i) | - | - |
| TOTAL NON CURRENT ASSETS | | 2,114,221 | 226,266 |
| **TOTAL ASSETS** | | 4,888,614 | 3,266,412 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 13 | 2,023,037 | 1,211,875 |
| Equity refundable | | - | 469,849 |
| Borrowings | 14 | 3,833,139 | 1,994,158 |
| TOTAL CURRENT LIABILITIES | | 5,856,176 | 3,675,882 |
| **TOTAL LIABILITIES** | | 5,856,176 | 3,675,882 |
| **NET ASSETS** | | (967,562) | (409,470) |
| **EQUITY** | | | |
| Issued capital | 15 | 39,024,667 | 34,233,365 |
| Reserves | 16 | (9,049,393) | (155,920) |
| Accumulated losses | | (29,763,034) | (30,967,307) |
| **Total capital and reserves attributable to the owners of Consolidated Zinc Limited.** | | 212,240 | 3,110,138 |
| Non-controlling Interests | | (1,179,802) | (3,519,607) |
| **TOTAL EQUITY** | | (967,562) | (409,470) |

*Restated as a result of change in accounting policy (note 3(i)) and a correction of error (note 22).

*The accompanying notes form part of these financial accounts*

# Consolidated statement of cash flows
## for the six months ending 31 December 2018

| | Note | Six months ended 31 December 2018 $ | Year ended 30 June 2018* $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Payments to suppliers and employees | | (1,911,577) | (5,535,389) |
| **Net cash used in by operating activities** | 18 (a) | (1,911,577) | (5,535,389) |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payment for property, plant and equipment | | (52,869) | (125,924) |
| Payment for development | | (895,095) | - |
| Payment for exploration expenditure | | - | - |
| Payment for acquisition of minority interests | | (750,000) | - |
| **Net cash used in investing activities** | | (1,697,964) | (125,924) |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | 1,509,022 | 1,862,220 |
| Proceeds from issue of convertible notes | | 1,550,000 | - |
| Proceeds from borrowings | | 500,000 | 1,300,000 |
| Payment of capital raising expenses | | (23,323) | (141,728) |
| **Net increase in provided by financing activities** | | 3,535,699 | 3,020,492 |
| | | | |
| Net increase/(decrease) in cash held | | (73,842) | (2,640,821) |
| Foreign currency translation | | 421 | (107,682) |
| Cash and cash equivalents at the beginning of the financial period | | 335,489 | 3,083,992 |
| **Cash and cash equivalents at the end of the financial period** | 8 | 262,068 | 335,489 |

*Restated as a result of change in accounting policy (note 3(i)) and a correction of error (note 22).

*The accompanying notes form part of these financial accounts*

# Consolidated statement of changes in equity
# for the six months ending 31 December 2018

| | Issued capital | Accumulated losses | Share-based Payments Reserve | Foreign Currency Translation Reserve | NCI Reserve | Owners of the Parent | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|
| ***For the six months ended 31 December 2018*** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| **At 30 June 2018** | | | | | | | | |
| As originally reported | 34,233,365 | (18,365,220) | 1,202,173 | (1,302,894) | - | 15,767,424 | (697,799) | 15,069,625 |
| Changes in accounting policy (note 3(i)) | - | (12,486,917) | - | (55,199) | - | (12,542,116) | (2,711,154) | (15,253,270) |
| Correction of error (note 22) | - | (115,171) | - | - | - | (115,171) | (110,654) | (225,825) |
| **At 30 June 2018*** | 34,233,365 | (30,967,308) | 1,202,173 | (1,358,093) | - | 3,110,137 | (3,519,607) | (409,470) |
| Loss for the period after income tax from continuing operations | - | 208,165 | - | | - | 208,165 | (1,606,008) | (1,397,843) |
| Other comprehensive (loss) for the period | - | - | - | (69,923) | - | (69,923) | (655,414) | (725,337) |
| **Total comprehensive income for the period** | - | 208,165 | - | (69,923) | - | 138,242 | (2,261,422) | (2,123,180) |
| **Transactions with owners in their capacity as owners:** | | | | | | | | |
| Issue of new shares net of issuance costs | 3,985,698 | - | - | - | - | 3,985,698 | - | 3,985,698 |
| Transactions with non-controlling interests | - | - | - | - | (7,851,227) | (7,851,227) | 4,601,227 | (3,250,000) |
| Conversion of convertible note | 805,604 | - | - | - | - | 805,604 | - | 805,604 |
| Reclassification of reserves | - | 996,109 | (996,109) | - | - | - | - | - |
| Share based payments | - | - | 23,786 | - | - | 23,786 | - | 23,786 |
| | 4,791,302 | 996,109 | (972,323) | - | (7,851,227) | (2,036,139) | 4,601,227 | 1,565,088 |
| **At 31 December 2018** | **39,024,667** | **(29,763,034)** | **229,850** | **(1,428,016)** | **(7,851,227)** | **212,240** | **(1,179,802)** | **(967,562)** |

*Restated as a result of change in accounting policy (note 3(i)) and a correction of error (note 22).

*The accompanying notes form part of these financial accounts*

# Consolidated statement of changes in equity
# for the six months ending 31 December 2018

| | Issued capital | Accumulated losses | Share-based Payments Reserve | Foreign Currency Translation Reserve | Owners of the Parent | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|
| ***For the year ended 30 June 2018*** | $ | $ | | $ | $ | $ | $ |
| **At 30 June 2017** | 32,106,372 | (16,933,215) | 1,018,739 | (787,534) | 15,404,362 | (687,194) | 14,717,168 |
| Change in accounting policy (note 3(i)) | - | (10,423,691) | - | (61,726) | (10,485,417) | (1,510,477) | (11,995,894) |
| **At 30 June 2017 - restated** | 32,106,372 | (27,356,906) | 1,018,739 | (849,260) | 4,918,945 | (2,197,671) | 2,721,274 |
| Loss for the year after income tax from continuing operations | - | (3,602,502) | - | - | (3,602,502) | (1,351,831) | (4,954,334) |
| Loss for the year after income tax from discontinued operations | - | (7,899) | - | - | (7,899) | - | (7,899) |
| Other comprehensive (loss) for the year | - | - | - | (508,833) | (508,833) | 29,895 | (478,938) |
| **Total comprehensive income for the year** | - | (3,610,401) | - | (508,833) | (4,119,234) | (1,321,936) | (5,441,171) |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Discontinued operations | - | - | - | - | - | - | - |
| Issue of new shares net of issuance costs | 1,920,493 | - | - | - | 1,920,493 | - | 1,920,493 |
| Equity settled issuance costs | (116,000) | - | 116,000 | - | - | | - |
| Conversion of convertible note | 322,500 | - | - | - | 322,500 | - | 322,500 |
| Reclassification of reserves | - | - | - | - | - | - | - |
| Share based payments | - | - | 67,434 | - | 67,434 | - | 67,434 |
| | 2,126,993 | - | 183,434 | - | 2,310,427 | - | 2,310,427 |
| **At 30 June 2018*** | 34,233,365 | (30,967,307) | 1,202,173 | (1,358,093) | 3,110,138 | (3,519,607) | (409,470) |

*Restated as a result of change in accounting policy (note 3(i)) and a correction of error (note 22).

*The accompanying notes form part of these financial accounts*

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the financial statements and notes of Consolidated Zinc Limited ("the Company") and its controlled entities (the "Consolidated Entity" or "Group").

The separate financial statements of the parent entity, Consolidated Zinc Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 1 April 2019 by the directors of the Company.

**Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report is presented in Australian dollars which is considered to be the groups functional and presentation currency. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Except for cash flow information, the financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

**Going concern**

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

*Working Capital Deficiency*

As at balance date, the consolidated entity had a net working capital deficiency of $3.082 million. Included in the working capital deficiency are current liabilities of $3.833 million, which include convertible notes and borrowings and associated accrued interest payable, more fully described in Note 14.

The Directors believe the going concern assumption is appropriate, as at the date of this report:

- The assumptions utilised in the cashflow forecast (the forecast zinc/lead prices, production volumes and operating costs) demonstrate surplus cashflow generated by the commencement of mining will be sufficient to repay the unsecured loans and other current liabilities;

- On 1 April 2019, the Company agreed with the holders of the convertible notes maturing between April and July 2019 to extend the maturity date to 30 June 2020. The principal balance of these convertible notes is $1.400 million, with all other terms including the conversion price remain the same. The extension of the maturity date of the convertible notes to entities related to Stephen Copulos and Andrew Richards totalling $0.950 million is subject to shareholder approval.

- On 1 April 2019, the Company announced it had executed a new agreement to toll treat Plomosas ore with a well-known toll treatment provider Triturado y Minerales La Piedrera S.A. de CV, who operate the Aldama third party concentrator facility (the "Aldama Plant"), located close to the Plomosas Mine. The new agreement is for 18 months, extendable at 6 month extensions by the Company.

- The company is currently in advanced negotiations with a number of parties including Industrias Penoles S.A.B de C.V. and Trafigura Beheer BV to sell the Plomosas Zinc and Lead Concentrates to be produced from the Aldama ore tolling facility; and

- Legal opinions obtained by the company confirms, that it has no outstanding breaches in relation to the claim to terminate the land use agreement and there is a high probability of success to appeal against the Federal Court of Mexico.

Based on the above, the Directors have reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and the Directors consider that the going concern basis of preparation to be appropriate for these financial statements.

If the Group is unable to continue as a going concern, it may be required to realise its assets and/or settle its liabilities other than in the ordinary course of business and at amounts different to those stated in the financial statements.

**Change of financial year end**

The financial year end of the Company was changed from 30 June to 31 December during the period ended 31 December 2018, to align the Company's financial year end with that of its subsidiary.

**a) Principles of Consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Consolidated Zinc Limited as at 31 December 2018 and the results of all subsidiaries for the period then ended. Consolidated Zinc Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**b) Income Tax**

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit of loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

**c) Plant and Equipment**

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset.

The carrying amount of plant and equipment is reviewed on each balance sheet date by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

**Depreciation**

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the assets useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

| **Class of Fixed Asset** | **Depreciation Rate** |
|---|---|
| Plant and equipment | 33% |
| Office equipment | 33% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**d) Exploration and Evaluation Expenditure**

Exploration and evaluation expenditure is expensed to the consolidated statement of profit or loss and other comprehensive income as and when it is incurred and included as part of cash flows from operating activities.

The Group voluntarily changed its accounting policy in respect to the exploration and evaluation expenditure and prepared the financial report on the basis of retroactive application, in accordance with AASB 108, Accounting Policies, Changes in Accounting Estimates and Errors.

The effects of change in the accounting policy on the financial statements are disclosed in note 3(i).

**e) Mine and Development Properties**

Mine development expenditure incurred is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises net direct costs and appropriate portion of related overhead expenditure but does not include general overheads or administrative expenditure not having a specific connection with a particular area of interest, which is expensed in the period it is incurred.

Development expenditure includes pre-commissioning costs, inclusive of costs and revenue incidental to the commissioning efforts. Development expenditure is reclassified to mine properties at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

No depreciation is recognised in respect of development expenditure until reclassified as mine properties. Development expenditure is tested for impairment in accordance with the policy in note 1(h).

When further development expenditure is incurred in respect of mine properties after the commencement of production, such expenditure is carried forward as part of the mining property when it is probable that additional future economic benefits associated with the expenditure will flow to the consolidated entity. Otherwise such expenditure is classified as a cost of production.

Depreciation is charged using the units-of-production method, with separate calculations being made for each area of interest. The units-of-production basis results in a depreciation charge proportional to the depletion of mineral resources. Mine properties are tested for impairment in accordance with the policy note 1(h).

**f) Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership – are transferred to entities in the Consolidated Entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**g) Financial Instruments**

*(i) Initial measurement*

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

*(ii) Classification and subsequent measurement of financial assets*

The classification of a financial asset is made at the time it is initially recognised and depends on whether the financial asset is an equity instrument or a debt instrument.

Equity instruments

All equity investments are measured at fair value in the consolidated statement of financial position, with value changes recognised in profit or loss, except for those equity investments for which the Group has elected to present value changes in 'other comprehensive income'.

If an equity investment is not held for trading, the Group can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognised in profit or loss.

Debt instruments

The Group classifies debt instruments based on the Group's business model and cash flow characteristics of the debt instrument.

If both of the following conditions are met, then the debt instrument is measured at amortised cost:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income (FVTOCI) if both of the following conditions are met:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Even if a debt instrument meets the two requirements to be measured at amortised cost or FVTOCI, the Group can designate, at initial recognition, a debt instrument as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

*(iii) Recognition and derecognition of financial assets*

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. 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.

*(iv) Impairment of financial assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

*(v) Classification and subsequent measurement of financial liabilities*

Financial liabilities held for trading are measured at fair value through profit or loss. All other financial liabilities are measured at amortised cost unless the fair value option is applied.

*(vi) Derivatives*

All derivatives, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognised in profit or loss.

**h) Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed on each balance sheet date for goodwill and intangible assets with indefinite lives.

**i) Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**j) Employee Benefits**

*Short term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Long term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**k) Equity-settled compensation**

The Group provides benefits to Directors, employees and consultants in the form of share, performance rights and option-based payments. The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using an appropriate valuation technique that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, and the risk free interest rate for the term of the option.

The fair value of options and performance rights granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options or performance rights granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

**Provisions**

Provisions are recognised when the entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**l) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

**m) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured.

### n) Inventories

*Consumables and ore stockpiles*

Raw materials, stores and ore stockpiles are stated at the lower of cost and net realisable value.

Inventories of ore are initially physically measured by estimating the number of tonnes added and removed from the stockpile. At month end, the stockpiles are measured and adjustments are made to reflect the measured quantities. Cost represents weighted average cost encompassing direct costs and an appropriate portion of fixed and variable overhead expenditure, including depreciation and amortisation.

### o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

### p) Revenue

The Consolidated Entity adopted AASB 15 during the period. The revised accounting policy in respect of revenue is set out below. The Consolidated Entity generates sales revenue primarily from the obligation to transfer ore to the buyer which is processed into concentrate and sales revenue is based on the concentrate sold to the buyer, based on the commercial terms of the contract.

Revenue is allocated between the performance obligations and recognised as each performance obligation is met, which for the primary obligation occurs when the ore is delivered to the customer's location.

The Group's sale of concentrate incurs customary treatment and refining charges and other commercial costs consistent with industry practice. These items are in essence a deduction from the value of metal contained within the concentrate. These items are generally variable in nature and linked either to an annual benchmark or spot pricing and are accounted for as a deduction to revenue when they are recognised.

As is industry practice, the Consolidated Entity typically makes sales whereby the final sales price for the primary performance obligation is determined based on the market price prevailing at a date in the future.

Revenue for the primary performance obligation is measured based on the fair value of the consideration specified in a contract with the customer at the time of settling the performance obligation and is determined by reference to forward market prices.

Provisional pricing adjustments, which occur between the fair value at the time of settling the primary performance obligation and the final price, are also recorded within revenue.

Gains and losses on hedge instruments related to sales contracts are also recorded in revenue and generally offset the movement as a result of provisional pricing adjustments.

*(i) Interest income*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### q) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

**r) Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**s) Dividends**

Dividends are recognised when declared during the financial period and no longer at the discretion of the Company.

**t) Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Consolidated Zinc Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

*Diluted earnings per share*

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

**u) Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

**v) Goods and Services Tax (“GST”) and Value Added Tax (“VAT”)**

Revenues, expenses and assets are recognised net of the amount of associated GST or VAT, unless the GST or VAT incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST or VAT receivable or payable. The net amount of GST or VAT recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

Cash flows are presented on a gross basis. The GST or VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

**w) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

*Environmental Issues*

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors understanding thereof. At the current stage of the Group's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

*Taxation*

Balances disclosed in the financial statements and the notes thereto, related to taxation are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending assessments by the Australian and Mexican Taxation Authorities.

*Key Judgements –Share based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 21.

**x) Operating segments**

Identification and measurement of segments – AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments.

**y) Foreign Currency Transactions and balances**

*Functional and presentation currency*

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The Groups subsidiary in Mexico utilises Mexican Peso as the functional currency and as at balance date, all other controlled entities in the Group utilise Australian Dollars as the functional currency.

The consolidated financial statements are presented in Australian dollars.

*Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

*Group companies*

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed of.

**z) Adoption of New and Revised Standards**

***Amendments to AASBs and the new Interpretation that are mandatorily effective for the current period***

In the current period, the Consolidated Entity has applied a number of amendments to AASBs and a new interpretation issued by the Australian Accounting Standards Board (AASB) that is mandatorily effective from an accounting period on or after 1 January 2018.

The application of these amendments and interpretation does not have any material impact on the Consolidated Entity's consolidated financial statements.

***Standards and Interpretations in issue not yet effective***

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective:

*AASB 16 'Leases –Accounting for leases' - effective 1 January 2019*

AASB 16 introduces a new model for the accounting for lessees which will require the recognition of assets and liabilities for all leases. The standard removes the current distinction of between operating and finance leases and is replaced by a model where a right of use asset and a corresponding liability are recognised for all leases except for short term leases and leases of low value assets. The right of use asset will be depreciated over the lease term and the lease liability will be adjusted for lease payments and interest charged. The impact on the financial performance of the company will be to reduce administration expenses with a related increase in finance costs.

A preliminary assessment of the Group's leases at 31 December 2018 has indicated that some existing non-cancellable operating leases, for example office leases, would qualify as leases under the new standard resulting in recognition of right of use assets and corresponding liabilities. Due to the potential changing nature of these agreements we have not yet quantified the potential impact of applying the new standard.

## NOTE 2. KEY MANAGEMENT PERSONNEL COMPENSATION

Names and positions held of the entity's key management personnel in office at any time during the financial period are:

| | |
|---|---|
| Mr. Stephen Copulos | Chairman (Non-Executive) |
| Mr. Brad Marwood | Chief Executive Officer |
| Mr. Anthony Italiano | Chief Financial Officer and Company Secretary (appointed 16 November 2018) |
| Mr. Andrew Richards | Director (Executive) |
| Ms. Angela Pankhurst | Director (Non-Executive, appointed 1 August 2018) |
| Mr. Steve Boda | Country Manager Minera Latin American Zinc (appointed 1 July 2018) |
| Mr. Andrew Beigel | Director and Company Secretary (resigned as a Director 17 October 2018 and Company Secretary 16 November 2018) |

### Salary and fees

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

| | Six months to 31 December 2018 $ | Year ended 30 June 2018 $ |
|---|---|---|
| Short terms benefits | 553,817 | 575,384 |
| Share based payments | 23,787 | 40,059 |
| Post-employment benefits | 3,318 | 5,205 |
| | 580,922 | 620,648 |

The following director and executive fees are paid to parties related by those KMPs:
- Director fees for Andrew Richards are paid to Arc Resources Pty Ltd, a company of which Mr. Richards is a director.
- Director fees for Stephen Copulos are paid to The Eyeon Investments Family Trust, a company of which Mr. Copulos is a director.
- Executive fees for Brad Marwood are paid to Corporate Mining Pty Ltd, a company of which Mr. Marwood is a director.
- Fees for Steve Boda are paid to Kasy Investments Pty Ltd, a company of which Mr. Boda is a director.

### Other transactions with key management personnel

The Company has outstanding balances due to the following KMPs and their related parties in respect to convertible notes and loans and associated interest.

At 31 December 2018, the outstanding balances regarding the convertible notes and loans are as follows:

| KMP | Convertible notes $ | Interest on convertible notes $ | Loan $ | Interest on loan $ |
|---|---|---|---|---|
| Stephen Copulos | 1,985,156 | 84,082 | 400,000 | 1,098 |
| Andrew Richards | 50,000 | 3,438 | 100,000 | 274 |
| | 2,035,156 | 87,521 | 500,000 | 1,372 |

All convertible notes in the table above are maturing by August 2019 and can either be repaid or converted to ordinary shares of the Company at the lower of $0.01 or the last capital raising, subject to shareholder approval.

The unsecured loan and associated interest are repayable by the end of July 2019.

The Company has an outstanding balance receivable from Steve Boda in respect to a relocation advance of $20,148. The advance was provided to Mr Boda to purchase a vehicle upon relocation to Mexico. The advance is interest-free and is repayable within twelve months.

## NOTE 3. EXPLORATION EXPENSES

| | Note | Six months to 31 December 2018 $ | Year ended 30 June 2018* $ |
|---|---|---|---|
| Exploration expenses | *(i)* | 365,126 | 3,496,000 |

*Restated as a result of change in accounting policy (note 3(i)) and a correction of error (note 22).

*(i) Voluntary change in accounting policy*

The financial report has been prepared on the basis of retrospective application of a voluntary change in accounting policy relating to exploration and evaluation expenditure in accordance with standard AASB 6: Exploration and Evaluation of Mineral Resources.

In previous financial reporting periods, the costs incurred in connection with exploration of areas with current rights of tenure were capitalised in the consolidated statement of financial position to the extent that they were expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Under the new accounting policy, the Group will expense exploration and evaluation expenditure as incurred in respect of each identifiable area of interest.

The Board have determined that the change in accounting policy will result in more relevant and no less reliable information as the policy is more transparent and less subjective. Recognition criteria of exploration and evaluation assets are inherently uncertain and expensing as incurred results in more transparent consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income.

The voluntary change in the accounting policy has resulted in a change in presentation of the consolidated statement of cash flows with exploration and evaluation expenditure being reclassified from investing to operating activities.

The following table summarises the adjustments made to the consolidated statement of profit or loss and other comprehensive income and to the consolidated statement of financial position on 30 June 2018.

| | 30-Jun-18 | | | 30-Jun-17 | | |
|---|---|---|---|---|---|---|
| | Previous amount | Increase/ (decrease) | Restated amount | Previous amount | Increase/ (decrease) | Restated amount |
| **Statement of financial position** | | | | | | |
| **Exploration expenditure** | **16,426,284** | **(16,426,284)** | **-** | **11,995,894** | **(11,995,894)** | **-** |
| Trade and other receivable | 1,530,643 | 1,173,014 | 2,703,657 | - | - | - |
| Net assets | 15,069,625 | (15,253,270) | (183,645) | 14,717,168 | (11,995,894) | 2,721,274 |
| Reserves | (100,721) | (55,199) | (155,920) | 231,205 | (61,726) | 169,479 |
| Retained earnings | (18,365,220) | (12,486,917) | (30,852,137) | (16,933,215) | (10,423,691) | (27,356,906) |
| Non-controlling interest | (697,799) | (2,711,154) | (3,408,953) | (687,194) | (1,510,477) | (2,197,671) |
| **Total equity** | **15,069,625** | **(15,253,270)** | **(183,645)** | **14,717,168** | **(11,995,894)** | **2,721,274** |
| **Statement of profit or loss and other comprehensive income** | | | | | | |
| Exploration and evaluation expenses | - | (3,270,175) | (3,270,175) | - | (3,796,847) | (3,796,847) |
| *Loss after tax attributable to:* | | | | | | |
| Equity holders of the Company | (1,432,005) | (2,063,226) | (3,495,231) | (1,442,417) | (2,345,675) | (3,788,092) |
| Non-controlling interests | (34,228) | (1,206,949) | (1,241,177) | (40,501) | (1,451,172) | (1,491,673) |
| *Total comprehensive loss attributable to:* | | | | | | |
| Equity holders of the Company | (1,947,365) | (2,056,699) | (4,004,064) | (1,869,276) | (2,407,401) | (4,276,677) |
| Non-controlling interests | (10,605) | (1,200,677) | (1,211,282) | (608,913) | (1,510,477) | (2,119,390) |
| Basic loss per share (cents per share) | (0.18) | | (0.43) | (0.32) | | (0.81) |
| Diluted loss per share (cents per share) | (0.18) | | (0.43) | (0.32) | | (0.81) |

In accordance with AASB 108, Accounting Policies, Changes in Accounting Estimates and Errors, brought forward balances to 30 June 2018 are accounted for retrospectively and reflected against Retained Earnings. Exploration during the year ended 30 June 2018 is expensed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The amounts disclosed above for the year ended 30 June 2018, and for the balance sheet as at 30 June 2018 are before restatements for the correction of error disclosed in note 22.

## NOTE 4. REVENUE FROM CONTRACTS WITH CUSTOMERS AND ADMINISTRATION EXPENSES

### a) Revenue from contracts with customers

The Company entered into a Tolling and Offtake Agreement with Grupo Mexico in September 2018, to processing the Plomosas ore at the nearby Santa Eulalia concentrator and sell the resulting concentrate to the Grupo Mexico Potosi Smelter. The Grupo Mexico is the Group's only customer and the offtake agreement is for a one-year term.

*Payment terms*

The first provisional payment of 85% of the provisional value is due 15 days after the delivery of each 3,000MT of Plomosas ore. Once all elements are known, the final invoice is paid within 5 days.

The provisional invoice is calculated based on the Zinc, Lead and Silver prices averaged over the prior 30 days and the provisional assays, and the final invoice is issued once the final assays and prices for Zinc, Lead and Silver are known.

During the period to 31 December 2018, the Group delivered 3,487 tonnes of ore to Grupo Mexico deriving revenue of $685,491 net of treatment and refining charges (30 June 2018: nil).

### b) Administration expenses

| | *Note* | Six months to 31 December 2018 $ | Year ended 30 June 2018 $ |
|---|---|---|---|
| Administration | | (95,778) | (151,731) |
| Consultancy and legal expenses | | (227,808) | (153,340) |
| Compliance and regulatory expenses | | (50,151) | (67,119) |
| Communication | | (1,880) | (4,653) |
| Depreciation and amortisation | | (221) | (547) |
| Occupancy | | (20,302) | (4,880) |
| Travel and accommodation | | (99,018) | (137,831) |
| Audit fees | *(i)* | (23,635) | (35,262) |
| | | (518,793) | (555,363) |

*(i) Audit fees*

| | | |
|---|---|---|
| Audit and assurance services | (23,635) | (35,262) |
| Total Auditors' remuneration | (23,635) | (35,262) |

## NOTE 5. EMPLOYEE EXPENSES

| | Six months to 31 December 2018 $ | Year ended 30 June 2018 $ |
|---|---|---|
| Director and employee related expenses | (567,256) | (592,906) |
| Share-based payments | (23,786) | (67,434) |
| | (591,042) | (660,340) |

Details of directors' and KMP remuneration are disclosed in the remuneration report and in note 2.

## NOTE 6. INCOME TAX

| | Six months to 31 December 2018 $ | Year ended 30 June 2018 $ |
|---|---|---|
| **Reconciliation of income tax expense to prima facie tax payable** | | |
| The prima facie tax payable on (benefit) from ordinary activities before income tax is reconciled to the income tax expense as follows: | | |
| Prima facie tax benefit on operating loss at 27.5% (2018: 27.5%) | (384,407) | (1,362,442) |
| *Add Tax effect of:* | | |
| Non-deductible items | (6,541) | (19,031) |
| Deferred tax asset not brought to account | 390,948 | 1,381,473 |
| Income tax attributable to operating loss | - | - |

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward, amounts to approximately $19,489,251 (2018: $14,252,240) and capital losses of $1,258,856 (2018: $1,258,856) have not been brought to account at 31 December 2018 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained when:

i. the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
ii. the Group has a history of reporting and its financial forecasts indicate it will report future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
iii. the Group continues to comply with conditions for deductibility imposed by law; and
iv. no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure

The Group has no imputation credits at 31 December 2018.

## NOTE 7. EARNINGS PER SHARE

| | Six months to 31 December 2018 $ | Year ended 30 June 2018* $ |
|---|---|---|
| a) Basic and diluted earnings per share attributable to the ordinary equity holders of the Company | 0.02 | (0.44) |
| Basic and diluted earnings per share from continued operations attributable to the ordinary equity holders of the Company | 0.02 | (0.44) |
| Basic and diluted earnings per share from discontinued attributable to the ordinary equity holders of the Company | - | - |
| b) Profit/(Loss) used to calculate basic and diluted EPS | 208,165 | (3,610,402) |
| Profit/(Loss) from continuing operations | 208,165 | (3,602,503) |
| Loss from discontinued operations | - | (7,899) |
| | **Number of Shares** | |
| c) Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS | 959,735,168 | 817,968,952 |

*Restated as a result of change in accounting policy (note 3(i)) and a correction of error (note 22).

Potential ordinary shares are not considered dilutive, therefore the same number of weighted average ordinary shares was used in calculating both basic and diluted earnings per share.

**NOTE 8. CASH AND CASH EQUIVALENTS**

| | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| Cash at bank | 261,318 | 334,739 |
| Cash on hand | 750 | 750 |
| | 262,068 | 335,489 |

**NOTE 9. TRADE AND OTHER RECEIVABLES**

| | Note | 31 December 2018 $ | 30 June 2018* $ |
|---|---|---|---|
| *Current* | | | |
| Trade receivables | | 886,820 | - |
| Other receivable | (i) | 20,148 | 1,199,205 |
| Prepayments Other | | 129,067 | 5,823 |
| Indirect taxes receivable | (ii) | 1,380,956 | 1,498,629 |
| | | 2,416,991 | 2,703,657 |
| *Non-Current* | | | |
| Receivable from the Plomosas Project minority holder | (iii) | 326,452 | 78,513 |
| | | 326,452 | 78,513 |

*Restated as a result of change in accounting policy (note 3(i)).

(i) Other receivable includes the balance of the relocation advance to KMP Steve Boda disclosed in note 2.

(ii) The indirect tax receivable balances include $10,709 of Goods and Services Tax (“GST”) receivable in Australia and tax credits of $1,370,247 receivable in Mexico. The amount claimed in Mexico is expected to be released as either a cash refund or offset against VAT payable to the Mexican tax authorities.

(ii) The outstanding receivable from the Plomosas Project minority partner of $326,452 (30 June 2018: $78,513) is repayable upon commencement of mining operations at Plomosas by Retec Guaru S.A. (“Retec”). At 30 June 2018 the balance receivable was classified as a receivable from a related party due to Retec being related to a former Director Mr. Luis Rogelio Martinez Valles.

**NOTE 10. RELATED PARTIES**

## a) Parent entity

The consolidated entity in this report consists or Consolidated Zinc Limited, a company domiciled in Australia, and the entities it controlled at the end of, or during the six months ended 31 December 2018.

The registered office and principal place of business of Consolidated Zinc is:

Level 13
37 St George’s Terrace
PERTH WA 6000

## b) Group entities

| Subsidiaries of Consolidated Zinc Limited | Country of Incorporation | Percentage Owned (%) 31 Dec 2018 | Percentage Owned (%) 30 Jun 2018 |
|---|---|---|---|
| Arena Exploration Pty Ltd | Australia | 100 | 100 |
| Minera Latin American Zinc (“MLAZ”) | Mexico | 90 | 51 |

## c) Acquisition of additional 39% interest in MLAZ

In December 2018, the Company increased its interest in MLAZ to 90%, after acquiring the additional 39% interest for a purchase consideration of $3.25 million, of which $0.75 million was settled in cash and $2.50 million with the Company shares. The carrying amount of the non-controlling interest on the date of acquisition was ($7.483) million. The effect of changes in the ownership interest of MLAZ on the equity attributable to owners of the Company during the period is summarised below:

| | 31 December 2018<br>$ |
|---|---|
| Carrying amount of non-controlling interest acquired | (4,601,227) |
| Consideration paid to non-controlling interests | (3,250,000) |
| Excess consideration paid recognised in the transactions with non-controlling interests reserve within equity | (7,851,227) |

## d) Other transactions with related parties

Other than those included in the Key Management Personnel disclosures (Note 2) there have been no other transactions with related parties during the reporting period or balances outstanding at 31 December 2018.

## e) Non-controlling interests

| | 31 December 2018<br>$ | 30 June 2018<br>$ |
|---|---|---|
| ***Summarised balance sheet*** | | |
| Current assets | 2,378,185 | 2,676,827 |
| Current liabilities | (1,533,358) | (973,722) |
| **Current net assets/(liabilities)** | 844,827 | 1,703,105 |
| Non-current assets | 1,785,800 | 145,564 |
| Non-current liabilities | (18,677,955) | (12,117,803) |
| **Non-current net assets/(liabilities)** | (16,892,155) | (11,972,239) |
| **Net assets/(liabilities)** | (16,047,328) | (10,269,134) |
| Accumulated NCI | (1,179,802) | (3,519,607) |
| ***Summarised statement of comprehensive income*** | | |
| Revenue | 685,491 | - |
| (Loss)/profit for the period | (3,277,568) | (2,758,840) |
| Total comprehensive (loss)/income | (4,002,905) | (478,938) |
| (Loss)/profit allocated to NCI | (1,606,008) | (1,351,831) |
| ***Summarised cash flows*** | | |
| Cash flow from operating activities | (972,967) | (3,767,655) |
| Cash flow from investing activities | (947,964) | (216,841) |
| Cash flow from financing activities | 1,923,628 | 3,979,958 |
| **Net (decrease)/increase in cash and cash equivalents** | 2,697 | (4,538) |

## NOTE 11. PROPERTY, PLANT AND EQUIPMENT

| | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| **PLANT AND EQUIPMENT** | | |
| At cost | 272,745 | 186,810 |
| Accumulated depreciation | (60,071) | (39,057) |
| **Total plant and equipment** | **212,674** | **147,753** |
| | | |
| ***Movement in Plant and equipment*** | | |
| **Balance at beginning of period** | **147,753** | **51,138** |
| Additions | 64,697 | 125,923 |
| Depreciation expense | (221) | (547) |
| Depreciation expense deferred | (9,123) | (23,994) |
| Foreign exchange effect | 9,568 | (4,767) |
| **Balance at end of period** | **212,674** | **147,753** |

## NOTE 12. MINE PROPERTIES

### Mine and development property

| | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| Mine and development property at cost | 1,575,095 | - |
| | 1,575,095 | - |
| ***Movement in Mine and development property*** | | |
| **Opening balance** | **-** | **-** |
| Pre-commissioning revenue | (183,966) | - |
| Pre-commissioning costs | 1,480,362 | - |
| Additions | 278,699 | - |
| **Balance at end of period** | **1,575,095** | **-** |

The Group commenced commercial production on 1 December 2018. The cost incurred and revenue realised during the period preceding the start of production date have been recognised in mine properties in accordance with the accounting policy 1(e).

## NOTE 13. TRADE AND OTHER PAYABLES

| | 31 December 2018 $ | 30 June 2018* $ |
|---|---|---|
| Trade creditors | 1,560,881 | 935,787 |
| Other payables and accruals | 462,156 | 276,088 |
| | 2,023,037 | 1,211,875 |

*Restated as a result of correction of error (note 22).

Trade creditors are expected to be paid on 30 day terms.

## NOTE 14. BORROWINGS

| | Note | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|---|
| Convertible notes | a) | 2,859,211 | 1,994,158 |
| Loans from related parties | b) | 501,372 | - |
| Short-term loan facility | c) | 472,556 | - |
| | | 3,833,139 | 1,994,158 |

| | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| **a) Convertible notes** | | |
| *Convertible notes on issue* | | |
| Balance at the beginning of the period | 1,977,500 | 1,000,000 |
| Issued during the period | 1,550,000 | 1,300,000 |
| Notes converted to ordinary shares | (792,344) | (322,500) |
| **Convertible notes on issue** | **2,735,156** | **1,977,500** |
| *Interest payable on convertible notes on issue* | | |
| Balance at the beginning of the period | 16,658 | - |
| Interest on convertible notes for the period | 120,657 | 16,658 |
| Equity settled interest payable | (13,260) | - |
| **Interest payable on convertible notes** | **124,055** | **16,658** |
| **Convertible notes** | **2,859,211** | **1,994,158** |

During the period the Company raised $1,550,000 with the issue of convertible note tranches D and E, as disclosed below.

During the period, $592,344 of Tranche A funds were converted at a price of $0.012 for each share. In December 2018, an amount of $200,000 of Tranche B funds were converted at $0.01 for each share. Interest of $13,260 payable on the Tranche B conversion was settled with company shares at the same price of $0.01 per share.

***Terms of convertible notes on issue***

Convertible Note – Tranche A

The Tranche A convertible notes on issue at balance date is $85,156. The terms of these convertible notes are as follows:

- Interest rate: 0% per annum
- Maturity date: 14 October 2017. The term of the convertible note has been extended by the holder on a [monthly basis].
- Conversion price: lower of 1.2 cents per share or the last capital raising at the Maturity Date.

Convertible Note – Tranche B

The Tranche B convertible notes on issue at balance date is $400,000. The terms of these convertible notes are as follows:

- Interest rate: 10% per annum
- Maturity date: 12 months from the receipt of funds. Maturity dates vary from 20 April 2019 to 1 May 2019.
- Conversion price: lower of 1.0 cent per share or the last capital raising at the Maturity Date.

Subsequent to balance date, the Company agreed with the holders of the Tranche B convertible notes to extend the maturity date to 30 June 2020, with all other terms including the conversion price remain the same. The extension of the maturity date of the Tranche B convertible notes entities related to Stephen Copulos and Andrew Richards are subject to shareholder approval.

Convertible Note – Tranche C

The Tranche C convertible notes on issue at balance date is $500,000. The terms of these convertible notes are as follows:

- Interest rate: 10% per annum
- Maturity date: 12 months from the receipt of funds. Maturity dates are $300,000 on 7 June 2019 and $200,000 on 29 June 2019.
- Conversion price: lower of 1.0 cent per share or the last capital raising at the Maturity Date.

Subsequent to balance date, the Company agreed with the holders of the Tranche C convertible notes to extend the maturity date to 30 June 2020, with all other terms including the conversion price remain the same. The extension of the maturity date of the Tranche C convertible notes to entities related to Stephen Copulos are subject to shareholder approval.

Convertible Note – Tranche D

The Tranche D convertible notes on issue at balance date is $300,000. The terms of these convertible notes are as follows:

- Interest rate: 10% per annum
- Maturity date: 12 months from the receipt of funds, being 30 July 2019
- Conversion price: lower of 1.0 cent per share or the last capital raising at the Maturity Date.

Subsequent to balance date, the Company agreed with the holders of the Tranche D convertible notes to extend the maturity date to 30 June 2020, with all other terms including the conversion price remain the same. The extension of the maturity date of the Tranche D convertible notes to entities related to Stephen Copulos are subject to shareholder approval.

Convertible Note – Tranche E

The Tranche E convertible notes on issue at balance date is $1,250,000. The terms of these convertible notes are as follows:

- Interest rate: 10% per annum
- Maturity date: 12 months from the receipt of funds. Maturity dates are $100,000 on 23 August 2019, $1,050,000 on 27 August 2019 and $100,000 on 28 August 2018. The maturity date can be mutually extended for a term of 24 months.
- Conversion price: lower of 1.0 cent per share if converted within 12 months of the issue date, or 1.5 cents per share if converted within the second term of 12-24 months after the issue date.

## b) Loans from related parties

| | | 31 December 2018<br>$ | 30 June 2018<br>$ |
|---|---|---|---|
| Loan - principal amount | | 500,000 | - |
| Interest accrued | | 1,372 | - |
| | (i) | 501,372 | - |

In December 2018, the Company entered into a short-term funding arrangement with the directors of the Company, Stephen Copulos and Andrew Richards. Under the terms of the arrangement, Mr Copulos and Mr Richards provided $400,000 and $100,000, respectively, as a combined short-term unsecured loan facility of $500,000 to the Company. The loan is provided with a 10% interest rate, and is repayable, inclusive of interest by the end of July 2019.

## c) Short-term loan

| | | 31 December 2018<br>$ | 30 June 2018<br>$ |
|---|---|---|---|
| Loan - principal amount | | 469,845 | - |
| Interest accrued | | 2,711 | - |
| | (i) | 472,556 | - |

In December 2018, the Company entered into a loan agreement with a shareholder, Jetosea Pty Ltd ("Jetosea"), under which the amount of $469,845 refundable to Jetosea in respect to the 2017 capital raising, was converted to a loan. Interest on the loan is 10% and is calculated from the date of receiving the funds, being 30 May 2017. The loan balance, inclusive of interest, is repayable by 30 June 2019.

## NOTE 15. ISSUED CAPITAL

| | 31 December 2018 Number of shares | 30 June 2018 Number of shares | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|---|---|
| Ordinary shares paid net of costs | 1,165,339,694 | 924,938,165 | 39,024,667 | 34,233,365 |

### a) Share capital

***Movement in share capital***

| *Ordinary shares* | Issue price (cents) | Six months ended 31 December 2018 Number of shares | $ | Year ended 30 June 2018 Number of shares | $ |
|---|---|---|---|---|---|
| **Balance at the beginning of the period** | | **924,938,165** | **34,233,365** | **726,211,447** | **32,106,372** |
| Convertible Note | 1.200 | - | - | 26,875,000 | 322,500 |
| Capital raising | 1.200 | - | - | 107,681,717 | 1,292,181 |
| Capital raising | 1.200 | - | - | 16,666,667 | 200,000 |
| Capital raising | 1.200 | - | - | 47,503,333 | 570,040 |
| Conversion of options | 0.060 | - | - | 1 | - |
| Exercise of options | 0.025 | 22 | 1 | - | - |
| Share issue under SPP | 0.024 | 53,709,206 | 1,289,021 | - | - |
| Placement to existing shareholders | 0.024 | 4,166,667 | 100,000 | - | - |
| Placement to existing shareholders | 0.024 | 5,000,000 | 119,999 | - | - |
| Equity settled interest on convertible notes | 0.010 | 1,326,027 | 13,260 | - | - |
| Conversion of convertible notes | 0.010 | 20,000,000 | 200,000 | - | - |
| Conversion of convertible notes | 0.012 | 49,362,000 | 592,344 | - | - |
| Acquisition of 39% interest in MLAZ | 2.340 | 106,837,607 | 2,500,000 | - | - |
| Issuance costs | | | (23,323) | - | (257,728) |
| **Balance at the end of the period** | | **1,165,339,694** | **39,024,667** | **924,938,165** | **34,233,365** |

**Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### b) Unlisted options

***Movement in unlisted options***

| | Six months ended 31 December 2018 | | Year ended 30 June 2018 | |
|---|---|---|---|---|
| | Number of options | Exercise price per option $ | Number of options | Exercise price per option $ |
| Outstanding at the beginning of the period | 234,205,906 | - | 160,109,502 | - |
| Granted - unlisted options share-based payments to advisors | - | - | 40,000,000 | 0.060 |
| Granted - unlisted options free attached to share issue | - | - | 57,283,904 | 0.025 |
| Granted - unlisted director options | - | - | 1,250,000 | 0.060 |
| Granted - unlisted employee options | - | - | 3,000,000 | 0.060 |
| Exercised | - | - | - | - |
| Expired | (130,172,002) | 0.06 | (27,437,500) | 0.100 |
| Outstanding at period end | 104,033,904 | | 234,205,906 | |
| Exercisable at period end | 101,033,904 | | 231,205,906 | |

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

Weighted average remaining life of options over ordinary shares is 25.04 months (30 June 2018: 16.8 months).

Weighted average price of the remaining options is $0.04 (30 June 2018: $0.051) per option.

### c) Performance rights

***Movement in performance rights***

| | Six months ended 31 December 2018 | | Year ended 30 June 2018 | |
|---|---|---|---|---|
| | Number of PRs | Exercise price $ | Number of PRs | Exercise price $ |
| Outstanding at the beginning of the period | 6,500,000 | | 6,666,666 | |
| Granted during the period | 5,500,000 | - | 5,000,000 | - |
| Exercised | - | - | - | - |
| Expired | - | - | (5,166,666) | - |
| Outstanding at period end | 12,000,000 | | 6,500,000 | |
| Exercisable at period end | - | | - | |

Performance rights granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

Weighted average remaining life of performance rights is 13.85 months (30 June 2018: 8.81 months).

**Capital risk management**

The Groups objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

## NOTE 16. RESERVES

| | | 31 December 2018 $ | 30 June 2018* $ |
|---|---|---|---|
| Share-based payments reserves | *(i)* | 229,850 | 1,202,173 |
| Foreign currency translation reserve | *(ii)* | (1,428,016) | (1,358,093) |
| Outside entity interest reserve | *(iii)* | (7,851,227) | - |
| | | (9,049,393) | (155,920) |

*Restated as a result of change in accounting policy (Note 3(i)).

### (i) Share-based payments reserve

| | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| Balance at the beginning of the period | 1,202,173 | 1,018,739 |
| Performance rights expensed during period | - | 55,559 |
| Options issued during period | - | 127,875 |
| Reclassification to retained earnings for options lapsed or expired | (996,109) | - |
| Share-based payment expense | 23,786 | - |
| Balance at the end of the period | 229,850 | 1,202,173 |

The share-based payment expense details are disclosed in Note 21.

### (ii) Foreign currency translation reserve

| | 31 December 2018 $ | 30 June 2018* $ |
|---|---|---|
| Balance at the beginning of the period | (1,358,093) | (787,534) |
| Change in accounting policy reinstatement | - | (61,726) |
| Movement during the period | 585,491 | (538,728) |
| Attributable to the minority interests | (655,414) | 29,895 |
| Balance at the end of the period | (1,428,016) | (1,358,093) |

*Restated as a result of change in accounting policy (note 3(i)).

The foreign currency translation reserve movement results from translation of the Mexican subsidiary balances from the Mexican Pesos, being the subsidiary's functional currency, to the Australian Dollar, being the Group's presentation currency.

### (iii) Non-controlling interest reserve

During the reporting period, the Group recognised negative $7,851,227 non-controlling interest reserve, arising from the acquisition of additional interests in MLAZ. This amount represents the difference between the carrying value of the minority interest acquired and the consideration paid, as disclosed in Note 10(c).

## NOTE 17. COMMITMENTS AND CONTINGENCIES

### a) Commitments

The Group has commitments in respect to its tenement annual rental and licence costs, and for the corporate office lease in Perth.

#### (i) Commitments in respect to tenements

| | 31 December 2018<br>$ | 30 June 2018<br>$ |
|---|---|---|
| – not later than 12 months | 219,254 | 205,732 |
| – between 12 months and 5 years | 877,015 | 822,929 |
| – greater than 5 years | 6,593,523 | 6,186,895 |
| | 7,689,792 | 7,215,556 |

The commitments in respect to tenements cover the total annual expenditure commitments up until the various expiry dates of 2052 to 2060.

#### (ii) Office lease

The Group has contracts for the lease of a serviced office space in Perth, Australia (not cancellable) and an office in Chihuahua City, Mexico (not cancellable). The minimum commitments in respect to these contracts are as follows:

| | | |
|---|---|---|
| – not later than 12 months | 40,251 | 40,251 |
| – between 12 months and 2 years | 17,061 | 31,577 |
| | 57,312 | 71,828 |

### b) Contingencies

*Contingent Assets*

There are no contingent assets.

*Contingent Liabilities*

The Company announced on 10 August 2018 it received a claim by a company named Pandion Minerals Pty Ltd ("Pandion") pursuant to which Pandion claims to be conditionally entitled to 10% in the Plomosas Project in Mexico being free carried until the Definitive Feasibility Study ("DFS") is completed. The Plomosas Project is presently owned by a joint venture company Minera Latin America Zinc ("MLAZ"), in which the Group had a 51% interest. The pre-condition for the Pandion 10% to be issued is that the Company acquires a further 39% of MLAZ, which the Company acquired on 24 December 2018.

Pandion relies on an alleged letter agreement dated 8 December 2014. The Company was not previously in possession of this alleged letter agreement and does not accept its authenticity.

The Company considers the claim to be unfounded and, if the claim is pursued by Pandion, the Company will defend the claim vigorously.

### NOTE 18. CASH FLOW INFORMATION

| | Six months to 31 December 2018 $ | Year ended 30 June 2018* $ |
|---|---|---|
| **a) Reconciliation of Cash** | | |
| Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows: | | |
| Cash at bank and in hand | 262,068 | 335,489 |
| **Reconciliation of Cash Flow from Operations with Operating Loss after Income Tax** | | |
| Operating loss after income tax | (1,397,843) | (4,962,233) |
| ***Non-cash flows in loss after income tax*** | | |
| Share-based payment expense | 23,786 | 79,309 |
| Depreciation and amortisation | 221 | 547 |
| (Gain)/loss on foreign currency translation | (152,850) | 136,986 |
| Loss on disposal of asset | - | 98,551 |
| Loss on discounted operation | - | 7,899 |
| Interest expense | 126,125 | 16,767 |
| Finance expense | 511,497 | |
| ***Changes in assets and liabilities*** | | |
| Increase in current trade and other receivables | (1,397,845) | (2,244,400) |
| (Increase)/decrease in other assets | (200) | 1,400 |
| (Increase) in inventories | (94,734) | - |
| (Increase)/decrease in non-current trade and other receivables | (247,939) | 1,234,676 |
| Increase in trade and other payables | 718,205 | 95,109 |
| ***Net Cash Flow used in Operating Activities*** | **(1,911,577)** | **(5,535,389)** |

*Restated as a result of change in accounting policy (note 3(i)) and correction or error (note 22).

## b) Non-Cash Financing and Investing Activities

During the reporting period, the following financing and investing non cash activities took place:

| | Six months to 31 December 2018 $ | Year ended 30 June 2018 $ |
|---|---|---|
| *Included in capital raising fees:* | | |
| Issue of 4,250,000 employee options | - | 11,875 |
| Issue of 4,500,000 performance rights to directors and employees | - | 55,559 |
| Issue of 40,000,000 options for capital raising costs | - | 116,000 |
| *Shares issued for acquisition of 39% interest in MLAZ* | | |
| Issue of 72,649,573 shares to the non-controlling interest holders | 1,700,000 | - |
| Issue of 34,188,034 shares to Arena vendors | 800,000 | - |
| *Conversion of convertible notes* | | |
| Issue of 49,362,000 shares upon conversion | 592,344 | - |
| Issue of 20,000,000 shares upon conversion | 200,000 | - |
| Issue of 1,326,027 shares in payment of interest payable on convertible notes | 13,260 | - |

## NOTE 19. FINANCIAL INSTRUMENTS

### a) Financial Risk Management

The Group is exposed to financial risks through the normal course of its business operations. The key risks impacting the Group's financial instruments are considered to be foreign currency risk, liquidity risk, commodity price risk and credit risk. The Group's financial instruments exposed to these risks are cash and cash equivalents, trade and other receivables, trade payables and borrowings.

The Chief Executive Officer and Chief Financial Officer monitor the Group's risks on an ongoing basis and report to the Board. The Group currently does not use derivative financial instruments as part of its risk management process.

*(i) Foreign Currency risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group's functional currency is Australian Dollars ("A$)". Revenue from the sale of zinc ore is denominated in US Dollars, as are the majority of the Group's operating costs.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Management's policy is to manage foreign exchange risk against the functional currency. Management manage foreign exchange risk by continuously monitoring forecasts and spot prices of foreign currency.

The carrying amounts of the Group's financial assets and liabilities are denominated in Australian dollars except as set out below:

| | 31 December 2018<br>$ | 30 June 2018*<br>$ |
|---|---|---|
| Cash and cash equivalents held in MXN | 9,113 | 6,416 |
| Trade and other receivables in USD | 886,099 | - |
| Trade and other receivables in MXN | - | 1,173,014 |
| Indirect taxes receivable in MXN | 1,370,247 | 1,496,617 |
| Trade and other payables in MXN | (1,215,208) | (743,345) |
| Trade and other payables in USD | (318,150) | (225,825) |

*Restated as a result of change in accounting policy (note 3(i)) and correction or error (note 22).

Group sensitivity

Based on the financial instruments held at 31 December 2018, had the above currencies strengthened/weakened by 10% against the Australian dollar with all other variables held constant, the Group's post tax loss for the year would have been $73,689 higher/$70,371 lower (2017: $84,410 higher/$69,063 lower), mainly as a result of foreign exchange gains/losses on translation of financial instruments denominated in Mexican Pesos and US Dollars. There would have been no impact on other equity had the same currencies weakened/strengthened by 10% against the Australian dollar.

*(ii) Interest rate risk*

The Group does not have any debt that may be affected by interest rate risk. Cash balances held by the group are subject to interest rate risk.

### Market risks

*(i) Price risk*

Commodity price risk is the risk of financial loss resulting from movements in the price of the Group's commodity inputs and outputs. The Group's primary exposure is to commodity price risk arising from revenue derived from sales of ore. Commodity price risk associated with financial instruments relates primarily to changes in fair value caused by settlement adjustments to receivables.

**Liquidity risks**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who oversee a liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring there are appropriate plans in place to finance these future cash flows.

The totals for each category of financial instruments at 31 December 2018 were as follows:

| *Financial assets and liabilities* | 31 December 2018 $ | 30 June 2018* $ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 262,068 | 335,489 |
| Equity investments through profit or loss | 800 | 1,000 |
| Trade and other receivables - current | 2,416,991 | 2,703,657 |
| Trade and other receivables – non current | 326,452 | 78,513 |
| Total Financial Assets | 3,006,311 | 3,118,659 |
| **Financial Liabilities** | | |
| Trade and other payables | 2,023,037 | 1,211,875 |
| Equity refundable | - | 469,849 |
| Borrowings | 3,833,139 | 1,994,158 |
| Total Financial Liabilities | 5,856,176 | 3,675,882 |

*Restated as a result of change in accounting policy (note 3(i)) and a correction of error (note 22).

*(i) Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 6 months $ | 6-12 months $ | Over 12 months $ | Total contractual $ | Carrying amount of liabilities $ |
|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | |
| ***Non-derivatives*** | | | | | |
| Non-interest bearing | 2,023,037 | 85,156 | - | 2,108,193 | 2,108,193 |
| Interest bearing | 1,997,983 | 1,750,000 | - | 3,747,983 | 3,747,983 |
| **Total non-derivatives** | **4,021,020** | **1,835,156** | **-** | **5,856,176** | **5,856,176** |
| **As at 30 June 2018** | | | | | |
| ***Non-derivatives*** | | | | | |
| Non-interest bearing | 1,681,724 | 677,500 | - | 2,359,224 | 2,359,224 |
| Interest bearing | 16,658 | 1,100,000 | 200,000 | 1,316,658 | 1,316,658 |
| **Total non-derivatives** | **1,698,382** | **1,777,500** | **200,000** | **3,675,882** | **3,675,882** |

**Credit risk**

The Group's maximum exposures to credit risk in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet. Credit risk arises from the non-performance by counterparties of contractual financial obligations. Credit risk arises from cash and cash equivalents, deposits with banks, credit exposures to customers, any outstanding receivables and committed transactions.

Management assesses the credit quality of the customer by taking into account its financial position, past experience and other factors. For banks and financial institutions, management considers independent ratings. If there is no independent rating, risk control assesses the credit quality of the parties, taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

| | 31 December 2018<br>$ | 30 June 2018<br>$ |
|---|---|---|
| Indirect taxes receivable in foreign jurisdictions | 1,370,247 | 1,496,617 |
| Trade receivables | 886,099 | - |
| | **2,257,067** | **1,496,617** |

The Group has a material credit risk exposure to indirect taxes received from the Mexican Government.

The Group is also exposed to the risk of having a single customer for all of its sales.

### b) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the balance date are recorded at amounts approximating their carrying amount.

| | Floating interest rate | Fixed interest rate | | Non-interest bearing | Total | Weight effective interest rate |
|---|---|---|---|---|---|---|
| | | 1 year or less | 1 to 5 years | | | |
| | $ | $ | $ | $ | $ | % |
| ***At 31 December 2018*** | | | | | | |
| ***Financial assets*** | | | | | | |
| Cash | 262,068 | - | - | | 262,068 | - |
| Investments held for trading | - | - | - | 800 | 800 | - |
| Trade and other receivables - current | - | - | - | 2,416,991 | 2,416,991 | - |
| Trade and other receivables - non-current | - | - | - | 326,452 | 326,452 | - |
| **Total financial assets** | **262,068** | **-** | **-** | **2,744,243** | **3,006,311** | |
| ***Financial liabilities*** | | | | | | |
| Trade and other payables | - | | - | 2,023,037 | 2,023,037 | - |
| Borrowings | - | 3,747,983 | - | 85,156 | 3,833,139 | 10 |
| **Total financial liabilities** | **-** | **3,747,983** | **-** | **2,108,193** | **5,856,176** | |

| | Floating interest rate | Fixed interest rate 1 year or less | 1 to 5 years | Non-interest bearing | Total | Weight effective interest rate |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | % |
| ***At 30 June 2018*** | | | | | | |
| ***Financial assets*** | | | | | | |
| Cash | 335,489 | - | - | | 335,489 | - |
| Investments held for trading | - | - | - | 1,000 | 1,000 | - |
| Trade and other receivables - current | - | - | - | 1,530,643 | 2,703,657 | - |
| Trade and other receivables - non-current | - | - | - | 78,513 | 78,513 | - |
| **Total financial assets** | **335,489** | **-** | **-** | **1,610,156** | **3,118,659** | |
| ***Financial liabilities*** | | | | | | |
| Trade and other payables | - | - | - | 1,211,875 | 1,211,875 | - |
| Equity refundable | - | - | - | 469,849 | 469,849 | - |
| Borrowings | 16,658 | 1,300,000 | - | 677,500 | 1,994,158 | 7 |
| **Total financial liabilities** | **16,658** | **1,300,000** | **-** | **2,359,224** | **3,675,882** | |

## NOTE 20. OPERATING SEGMENTS

The Group considers that it has only operated in one reportable segment, being minerals exploration, development and production in Mexico.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is the Chief Executive Officer is responsible for allocating resources and assessing performance of the operating segments.

## NOTE 21. SHARE-BASED PAYMENTS

### (a) Non-plan-based payments

The Company makes share-based payments to executive Directors, consultants and/or service providers from time to time, not under any specific plan. The shares and options are issued for nil consideration and in accordance with the specific guidelines established by the Directors of Consolidated Zinc Limited. Any share-based payment to executive Directors requires the approval of shareholders at a general meeting. The vesting period and maximum term of shares or options granted vary according to Board's discretion.

### (b) Performance Rights Plan (PRP)

Shareholders approved the Consolidated Zinc Limited PRP at the Annual General Meeting held on 30 November 2016. The PRP is designed to more closely align rewards for performance with the achievement of the Company's growth and strategic objectives. The Board believes that the grant of performance rights under the PRP to eligible participants will underpin the employment strategy of attracting and retaining high calibre staff capable of executing the Company's strategic plans, and will maximise the retention of key management and operational staff; enhance the Company's ability to attract quality staff in the future, link the rewards of key staff with the achievement of strategic goals and the long term performance objectives of the Company, and provide incentives to participants of the Plan to deliver superior performance that creates shareholder value. The PRP provides for the issue of performance rights which, upon determination by the Board that the performance conditions attached thereto have been met and subject to the terms of the PRP, convert into fully paid ordinary shares. Where the participant is a Director or other related party of the Company, specific shareholder approval will have to be sought under the ASX Listing Rules prior to the grant of performance rights to such an individual. The exercise price, if any, for performance rights will be determined by the Board in its discretion and set out in the related invitation. The exercise price may be any amount and may be as low as zero, in which case a statement to that effect will be set out in the related invitation.

**(c) Expenses arising from share-based payment transactions**

During the period, $23,786 was recognised as share-based payment expense (30 June 2018: $67,434).

**(d) Performance rights granted**

A total of 5,500,000 Performance Rights Options were issued during the six months ended 31 December 2018.

The Performance Rights were issued to Directors as a key component of the incentive portion of their remuneration in order to provide incentive linked to the performance of the Company.

The Performance Rights were granted in six tranches with the vesting conditions and milestone dates set out below:

| Class of Performance Rights | Performance Condition | S Copulos | A Richards | Total Granted | Grant date | Expiry date |
|---|---|---|---|---|---|---|
| Class D | The Company announces a JORC compliant resource estimate comprising of any or all of the measured, indicated and/or inferred categories containing not less than 1.75MT at a minimum grade of 15% Zn+Pb or 275kt Zn and Pb contained metal at a minimum grade of 11%. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/12/2019 |
| Class E | The Company announces a JORC compliant resource estimate comprising of any or all of the measured, indicated and/or inferred categories containing not less than 2.0MT at a minimum grade of 15% Zn+Pb or 320kt Zn and Pb contained metal at a minimum grade of 11%. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/06/2020 |
| Class F | The Company announces a JORC compliant resource estimate comprising of any or all of the measured, indicated and/or inferred categories containing not less than 2.5MT at a minimum grade of 15% Zn+Pb or 400kt Zn and Pb contained metal at a minimum grade of 11%. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/12/2020 |
| Class G | The company achieving >3,000tpm production levels of plant feed, being anything mined and hauled to the surface from the Company's projects. | 250,000 | 250,000 | 500,000 | 20/12/2018 | 30/12/2019 |
| Class H | The company achieving >8,000tpm production levels of plant feed, being anything mined and hauled to the surface from the Company's projects. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/06/2020 |
| Class I | The company achieving >16,000tpm production levels of plant feed, being anything mined and hauled to the surface from the Company's projects. | 500,000 | 500,000 | 1,000,000 | 20/12/2018 | 30/12/2020 |
| | | 2,750,000 | 2,750,000 | 5,500,000 | | |

Total fair value of performance rights granted during the period is $99,000 which will be expensed over their respective lives. The share-based payments expense recognised in the reporting period in respect to these performace rights is $2,875.

**Fair value of the performance rights granted during the period**

The fair value of the performance rights granted during the period ended 31 December 2018 was determined using the Black-Scholes valuation method and the model inputs were as follows:

| | Class D | Class E | Class F | Class G | Class H | Class I |
|---|---|---|---|---|---|---|
| Grant date | 20-Dec-18 | 20-Dec-18 | 20-Dec-18 | 20-Dec-18 | 20-Dec-18 | 20-Dec-18 |
| Expiry date | 30-Dec-19 | 30-Jun-20 | 30-Dec-20 | 30-Dec-19 | 30-Jun-20 | 30-Dec-20 |
| Exercise price | nil | nil | nil | nil | nil | nil |
| Share price at grant date (cents) | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |
| Value (cents) | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |

***Amendments of terms for options and performance rights issued in prior periods***

The expiry dates of options and performance rights granted as compensation to Brad Marwood in the previous financial year, were amended to reflect the intention of the Board at the time the instruments were granted. The expiry dates disclosed in the 30 June 2018 remuneration report refer to dates by which the respective vesting conditions are to be met. The amendment does not affect the fair value of the options and performance rights or the shar-based payment expense recognised in respect to these instruments in the previous year.

The amended terms of the options and performance rights are as follows:

| Class of equity instruments | Performance Condition | Expiry Date per 30 June 2018 annual report | Amended Expiry Date |
|---|---|---|---|
| Class AA Performance Rights | (c) Upon the Company obtaining 90% equity in the Plomosas Project and commencement of early production;<br>or<br>(d) A Takeover Event occurs. | 31 December 2018 | 31 March 2019 |
| Class BB Performance Rights | (a) Upon the commissioning of plant and mine operations;<br>or<br>(b) A Takeover Event occurs | 30 September 2019 | 31 December 2019 |
| Class CC Performance Rights | (a) Upon achieving production levels equal to or greater than 200,000tpa;<br>or<br>(b) A Takeover Event occurs | 30 June 2020 | 30 September 2020 |
| Class AA Options | The date on which the Company achieves 90% equity in the Plomosas Project and commencement of early production | 31 December 2018 | 31 December 2023 |
| Class BB Options | The date on which the Company commissions plant and mine operations | 30 September 2019 | 30 September 2024 |
| Class CC Options | The date on which the Company achieves the production levels of greater than 200,000tpa | 30 June 2020 | 30 June 2025 |

The Black-Scholes model inputs for options and performance rights granted during the year ended 30 June 2018 that were varied during the period ended 31 December 2018 were as follows:

| | Options | | | Performance Rights | | |
|---|---|---|---|---|---|---|
| | Class AA | Class BB | Class CC | Class AA | Class BB | Class CC |
| Grant date | 04-Mar-18 | 04-Mar-18 | 04-Mar-18 | 04-Mar-18 | 04-Mar-18 | 04-Mar-18 |
| Expiry date | 31-Dec-23 | 30-Sep-24 | 30-Jun-25 | 31-Mar-19 | 31-Dec-19 | 30-Sep-20 |
| Exercise price (cents) | 6.00 | 6.00 | 6.00 | nil | nil | nil |
| Share price at grant date (cents) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Value (cents) | 0.72 | 0.92 | 0.98 | 1.00 | 1.00 | 1.00 |

## NOTE 22. CRITICAL JUDGEMENTS, ESTIMATES AND ERRORS

During the six months to 31 December 2018, a statement of outstanding fees was received from BGM Consultores Legales ("BGM") for legal services performed in relation to the Plomosas project that are yet to be invoiced. These costs were not recognised in the financial statements for 30 June 2018 in error.

The error has been corrected by restating each of the affected financial statement line for the prior period as follows:

| Statement of financial position | Previous amount $ | 30-Jun-18 Increase/ (decrease) $ | Restated amount $ |
|---|---|---|---|
| **Exploration expenditure** | | | - |
| Trade and other payable | 986,050 | 225,825 | 1,211,875 |
| Net assets | 15,069,625 | (225,825) | 14,843,800 |
| Retained earnings | (18,365,220) | (115,171) | (18,480,391) |
| Non-controlling interest | (697,799) | (110,654) | (808,453) |
| **Total equity** | **(15,069,625)** | **(225,825)** | **(14,843,800)** |

| Statement of profit or loss and other comprehensive income | Previous amount $ | 30-Jun-18 Increase/ (decrease) $ | Restated amount $ |
|---|---|---|---|
| Exploration and evaluation expenses | - | 225,825 | 225,825 |
| *Loss after tax attributable to:* | | | |
| Equity holders of the Company | (1,432,005) | (115,171) | (1,547,176) |
| Non-controlling interests | (34,228) | (110,654) | (144,882) |
| *Total comprehensive loss attributable to:* | | | |
| Equity holders of the Company | (1,947,365) | (115,171) | (2,062,536) |
| Non-controlling interests | (10,605) | (110,654) | (121,259) |
| Basic loss per share (cents per share) | (0.18) | (0.01) | (0.19) |
| Diluted loss per share (cents per share) | (0.18) | (0.01) | (0.19) |

The amounts disclosed above for the year ended 30 June 2018, and for the balance sheets as at 30 June 2018 are before restatements for the change in accounting policy disclosed in note 3(i).

**NOTE 23. PARENT INFORMATION**

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australia Accounting Standards.

| | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| Current Assets | 396,208 | 362,319 |
| Non-Current Assets | 23,840,691 | 19,852,000 |
| **TOTAL ASSETS** | 24,236,899 | 20,214,319 |
| Current Liabilities | 4,296,924 | 2,702,159 |
| **TOTAL LIABILITIES** | 4,296,924 | 2,702,159 |
| **NET ASSETS** | 19,939,975 | 17,512,160 |
| **EQUITY** | | |
| Issued capital | 39,024,667 | 34,233,364 |
| Reserves | 229,851 | 1,202,175 |
| Accumulated losses | (19,314,543) | (17,923,379) |
| **TOTAL EQUITY** | 19,939,975 | 17,512,160 |
| **STATEMENT OF COMPREHENSIVE INCOME** | | |
| Total Loss | (2,387,273) | (2,548,785) |
| Total Comprehensive Income | (2,387,273) | (2,548,785) |

Consolidated Zinc Limited does not hold any deed of cross guarantee for the debts of its subsidiary company as at 31 December 2018 (30 June 2018: Nil).

Consolidated Zinc Limited has no contingent liabilities at 31 December 2018 (30 June 2018: Nil).

Consolidated Zinc Limited has no commitments for the acquisition of property, plant and equipment as at 31 December 2018 (30 June 2018: Nil).

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 1.

**NOTE 24. GROUP DETAILS**

The registered office and principal place of business of the Group is:

Level 13
37 St George's Terrace
PERTH WA 6000

**NOTE 25. EVENTS AFTER THE REPORTING DATE**

Other than set out below, no matters or circumstances have arisen since the end of the period ended 31 December 2018 which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods:

- On 22 January 2019, the Company issued 7,096,333 fully paid ordinary shares on conversion of the remaining balance of the $677,500 convertible loan from the Copulos Group at a conversion price of 1.2 cents per share. In addition, 1,500,000 fully paid orindary shares were issued on the conversion of performance rights following satisfaction of specific criteria with no consideration payable.

- On 24 January 2019, the Company issued 2,950,000 fully paid orindary shares were issued on the conversion of performance rights following satisfaction of specific criteria with no consideration payable.

- On 4 February 2018, the Company's Chief Executive Officer, Mr Brad Marwood, joined the board as Managing Director.

- On 22 March 2019, the Company advised that it was appealing a decision by a single judge of the Federal Court of Mexico that would allow termination of MLAZ's Land Use Agreement with the local rancher on whose land the Plomosas mine is. The Company's lawyers have advised that there is no basis in contract for the termination and there is a high probability of the appeal being successful.

- On 1 April 2019, the Company agreed with the holders of the convertible notes maturing between April and July 2019 to extend the maturity date to 30 June 2020.

- On 1 April 2019, the Company announced it had executed a new agreement to toll treat Plomosas ore through the Aldama third party processing facility, following the notification received from Grupo Mexico to terminate the ore toll treatment and offtake agreement in accordance with the 60 days notice provision.

# Director's declaration

The directors of the Company declare that:

(a) the financial statements and notes thereto are in accordance with the Corporations Act 2001 and;

(i) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards; and

(ii) give a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the six months ended on that date.

(b) In the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;

(c) The directors have been given the declarations required by s 295A of the Corporations Act 2001; and

(d) As at the date of this declaration, in the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors:

**BRAD MARWOOD**
**Managing Director**

DATED this 1st day of April 2019

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF CONSOLIDATED ZINC LIMITED**

## Report on the Financial Report

### Opinion

We have audited the financial report of Consolidated Zinc Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2018 the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the six month period then ended; and

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

### Basis for Opinion

We have conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our ethical requirements in accordance with the Code.

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

### Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying the opinion expressed above, attention is drawn to the following matter. As a result of matters referred to in Note 1 to the financial report, "Going Concern", the ability of the Group to continue as a going concern is dependent upon various conditions. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.



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These matters were addressed in the context of our audit of the financial report as a while, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| **Key Audit Matter** | **How our audit addressed the key audit matter** |
|---|---|
| **Change of accounting policy**<br>*(refer note 3(i))*<br><br>The Group has elected to change the accounting policy in relation to exploration expenditure adopting to expense these costs as they are incurred.<br><br>This change in accounting policy has been made retrospectively resulting in the restatement of the financial information previously reported in the Annual Report for the year ended 30 June 2018. | Our audit procedures included the following:<br><br>• assessing whether the new accounting policy is in accordance with AASB 6 : Exploration for and evaluation of mineral resources; and<br><br>• assessing the adequacy of the disclosures made by the Group in the financial report. |
| **Increased ownership of the Plomosas Project** *(refer notes 10(c) and 16(iii))*<br><br>During the period the Group exercised an option to acquire up to 90% of the Plomosas Project by acquiring an additional 39% share of the project's operating entity, Minera Latin American Zinc S.A.P.I. de C.V.<br><br>The value of the consideration paid was $3,250,000 which included a cash payment of $750,000 with the balance being in the form of shares issued to the vendors. | Our audit procedures included the following:<br><br>• reviewing the June 2015 Shareholder Agreement to ensure our understanding of the key terms of the acquisition;<br><br>• ensuring that the accounting entries processed to record the acquisition were correct; and<br><br>• assessing the adequacy of the disclosures made by the Group in the financial report. |
| **Mine properties and development**<br>(*refer note 12)*<br><br>During the period the Group has established a mining operation at the Plomosas Project located in Chihuahua, Mexico. As a result the majority of activity in the period was focussed on the commissioning of the mine and the negotiation of a toll treatment and offtake contract.<br><br>All pre-commissioning expenditure incurred was capitalised and recognised as an asset in the Statement of Financial Position. Revenue from the sale of zinc and lead concentrates extracted from the ore mined during this phase has been offset against these capitalised costs. The closing value of the resulting mine properties and development asset is $1,575,095 as at 31 December 2018.<br><br>The carrying value of this asset will be amortised on a unit of production basis. | Our audit procedures included the following:<br><br>• ensuring that the pre-commissioning costs capitalised were directly attributable costs in accordance with AASB 116 : Property, plant and Equipment;<br><br>• ensuring that the revenue offset was limited to the ore delivered for treatment during the pre-commissioning phase; and<br><br>• assessing the adequacy of the disclosures made by the Group in the financial report. |

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's financial report for the six month period ended 31 December 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Directors' Responsibilities 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 the 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue and auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significant in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh public interest benefits of such communication.

**Report on the Remuneration Report**

**Opinion**

We have audited the Remuneration Report included on pages 20 to 26 of the directors' report for the six month period ended 31 December 2018.

In our opinion, the Remuneration Report of Consolidated Zinc Limited, for the six month period ended 31 December 2018, complies with section 300A of the Corporations Act 2001.

**Responsibilities**

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.

BUTLER SETTINERI (AUDIT) PTY LTD

LUCY P GARDNER
Director

Perth
Date: 1 April 2019

Additional information required by the Australian Securities Exchange Limited Listing Rules, and not disclosed elsewhere in this report.

**CORPORATE GOVERNANCE STATEMENT**

The Company's Corporate Governance Statement can be found on the Company's website at www.consolidatedzinc.com.au.

**SHAREHOLDINGS**

The names of the substantial shareholders listed on the Company's register as at 15 March 2019:

| Shareholder | Number | Percentage of issued capital held |
|---|---|---|
| Copulos Group | 312,114,720 | 26.52 |
| Farjoy Pty Ltd | 100,000,000 | 8.50 |
| Chris Retzos | 80,321,091 | 6.83 |
| Retec Guaru | 72,649,573 | 6.17 |

**CLASS OF SHARES AND VOTING RIGHTS**

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

- At a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- On a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options on issue.

**SECURITIES EXCHANGE LISTING**

Quotation has been granted for 1,176,886,027 ordinary shares of Consolidated Zinc Limited on all member exchanges of the *Australian Securities Exchange* and trade under the symbol CZL.

**RESTRICTED SECURITIES**

There are currently no restricted securities on issue.

**ON MARKET BUYBACK**

There is currently no on-market buy-back program for any of the Company's securities.

**DISTRIBUTION OF SHAREHOLDERS (as at 15 March 2019)**

| Shares Range | No of Holders | Units | % |
|---|---|---|---|
| 100,001 and above | 656 | 1,148,085,777 | 97.55 |
| 10,001 – 100,000 | 575 | 28,414,853 | 2.41 |
| 5,001 – 10,000 | 23 | 184,053 | 0.02 |
| 1,001 – 5,000 | 63 | 157,100 | 0.01 |
| 1 – 1,000 | 146 | 44,244 | 0.00 |
| **Total** | **1,463** | **1,176,886,027** | **100.00** |

There are 393 holders of unmarketable parcels comprising a total of 3,488,427 ordinary shares.

**Unlisted options (as at 15 March 2019)**

| Unlisted Options | No of Holders | Units on issue |
|---|---|---|
| Exercisable at $0.06 on or before 5 June 2020 | 1 | 2,500,000 |
| Exercisable at $0.06 on or before 31 December 2020 | 4 | 40,000,000 |
| Exercisable at $0.025 on or before 31 December 2020 | 25 | 57,283,882 |
| Exercisable at $0.06 on or before 30 June 2023 | 1 | 1,250,000 |
| Exercisable at $0.06 on or before 31 December 2023 | 1 | 1,000,000 |
| Exercisable at $0.06 on or before 30 September 2024 | 1 | 1,000,000 |
| Exercisable at $0.06 on or before 30 June 2025 | 1 | 1,000,000 |
| **Total** | | **104,033,882** |

**TWENTY LARGEST SHAREHOLDERS**
**(As at 15 March 2019)**

| | Name | Number of Shares | % |
|---|---|---|---|
| 1 | COPULOS SUPERANNUATION PTY LTD | 105,092,147 | 8.93 |
| 2 | FARJOY PTY LTD | 100,000,000 | 8.50 |
| 3 | RETEC GUARU S.A. DE C.V. | 72,649,573 | 6.17 |
| 4 | SPACETIME PTY LTD | 61,908,334 | 5.26 |
| 5 | SUPERMAX PTY LTD | 51,900,516 | 4.41 |
| 6 | CITYWEST CORP PTY LTD | 38,125,000 | 3.24 |
| 7 | WESTPARK OPERATIONS PTY LTD | 32,191,212 | 2.74 |
| 8 | RETZOS FAMILY PTY LTD | 22,916,667 | 1.95 |
| 9 | EYEON INVESTMENTS PTY LTD | 21,375,000 | 1.82 |
| 10 | BNP PARIBAS NOMINEES PTY LTD | 19,006,020 | 1.61 |
| 11 | RETZOS EXECUTIVE PTY LTD | 18,908,012 | 1.61 |
| 12 | AKG (MIDLAND) PTY LTD | 15,267,055 | 1.30 |
| 13 | PAUL CONSTANTINOU SUPERANNUATION PTY LTD | 13,250,159 | 1.13 |
| 14 | NORDCO AUSTRALIA PTY LTD | 13,000,000 | 1.10 |
| 15 | EQUITAS NOMINEES PTY LIMITED | 12,445,174 | 1.06 |
| 16 | SHAYDEN NOMINEES PTY LTD | 11,245,000 | 0.96 |
| 17 | MITROPOULOS NOMINEES PTY LTD | 10,725,000 | 0.91 |
| 18 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 10,526,590 | 0.89 |
| 19 | EYEON NO 2 PTY LTD | 8,958,333 | 0.76 |
| 20 | SPACETIME PTY LTD | 8,668,800 | 0.74 |
| | **Total** | **648,158,592** | **55.07** |

The schedule of tenements and concessions held by the Company as at 28 March 2019 are summarised in the Table below.

| Consolidated Zinc Limited – Tenement schedule | | | | | | |
|---|---|---|---|---|---|---|
| **Lease** | **Project** | **Name** | **Type** | **Lease Status** | **Expiry Date** | **CZL Equity** |
| **Mexico** | | | | | | |
| 217641 | Plomosas | La Falla | Mining | Granted | 05/08/2052 | 90% |
| 218242 | Plomosas | La Verdad | Mining | Granted | 16/10/2052 | 90% |
| 225527 | Plomosas | El Olvido | Exploitation | Granted | 19/09/2055 | 90% |
| 224880 | Plomosas | Pronto | Exploitation | Granted | 20/06/2055 | 90% |
| 218272 | Plomosas | Ripley | Exploitation | Granted | 16/10/2052 | 90% |
| 216882 | Plomosas | La México | Exploitation | Granted | 04/06/2052 | 90% |
| 227077 | Plomosas | Don Lucas | Exploitation | Granted | 03/05/2056 | 90% |
| 227078 | Plomosas | Don Lucas II | Mining | Granted | 03/05/2056 | 90% |
| 227664 | Plomosas | Don Lucas III | Mining | Granted | 27/07/2056 | 90% |
| 230175 | Plomosas | Don Lucas IV | Mining | Granted | 26/07/2057 | 90% |
| 235942 | Plomosas | Don Sebastain | Exploration | Granted | 19/04/2060 | 90% |