ABN 27 118 554 359

Interim Financial Report

For the six months ended

30 June 2019

CORPORATE DIRECTORY

DIRECTORS	Mr Stephen Copulos – Non-Executive Chairman Mr Brad Marwood – Managing Director Mr Andrew Richards – Executive Director Mrs Angela Pankhurst – Non-Executive Director
COMPANY SECRETARY	Mr Anthony Italiano
PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE	Level 13 37 St Georges Terrace PERTH WA 6000
SHARE REGISTRY	Link Market Services Limited Level 4 152 St George's Terrace PERTH WA 6000 +61 8 9211 6670
SECURITIES EXCHANGE (ASX: CZL)	Australian Securities Exchange Level 40 152-158 St George's Terrace PERTH WA 6000
SOLICITORS	Fairweather Corporate 595 Stirling Highway PEPPERMINT GROVE WA 6011
AUDITORS	HLB Mann Judd Level 4 130 Stirling Street PERTH WA 6000
CONTACT DETAILS	Postal: P.O. Box Z5273 PERTH WA 6831 Ph: + 61 (8) 9322 3406 Website: www.consolidatedzinc.com.au Email: info@conzinc.com.au

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DIRECTORS' REPORT

The directors present the financial report of Consolidated Zinc Limited (the "Company") and controlled entities (the "Group") for the half year ended 30 June 2019 (the "reporting period").

DIRECTORS

Mr Stephen Copulos – Non-Executive Chairman

Mr Brad Marwood – Managing Director (appointed Managing Director 4 February 2019)

Mr Andrew Richards – Executive Director

Mrs Angela Pankhurst – Non-Executive Director

All directors were in office for the entire period unless otherwise stated.

COMPANY SECRETARY

Mr Anthony Italiano

PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the reporting period was the mining of zinc and lead ores at its Plomosas Project.

REVIEW OF OPERATIONS

MEXICO – The Plomosas Project

During the reporting period, the Group 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. The Group 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 and 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"). Subsequent to balance date, CZL announced it had entered into an agreement to acquire full 100% ownership of MLAZ.

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

Mineralisation in the Plomosas district exists as stratiform sheets of manto-style mineralisation with cross-cutting "chimneys" influenced by the location of cross-cutting 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.

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. This Mineral Resource estimate was reported in compliance with the JORC (2012) guidelines and announced to the ASX on 30 April 2018.

DIRECTORS' REPORT

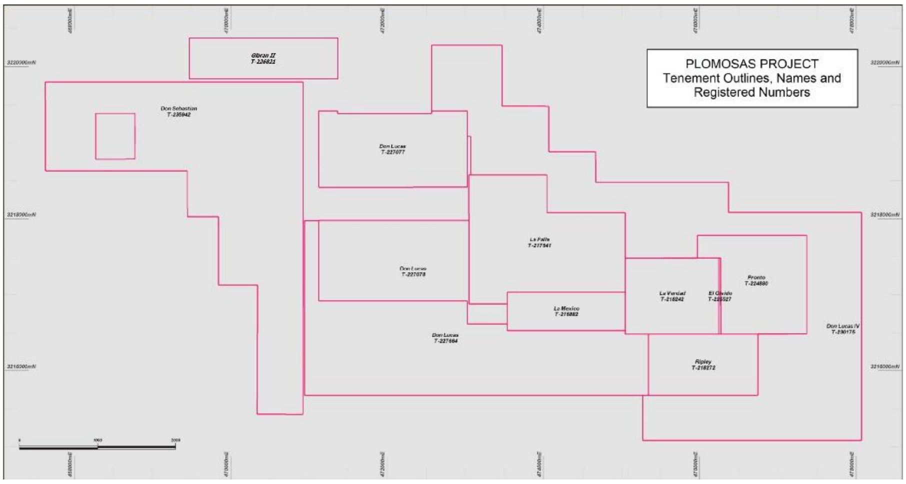

Figure 2. Plomosas Project tenement plan.

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

MINING OPERATIONS

For the six months ended 30 June 2019, CZL mined 27,148 tonnes of ore at 13.1% zinc and 4.1% lead. Waste mined was 14,037 tonnes, with 1,192 metres of underground development.

Mining activities focused on increasing underground development to increase access to high grade ore stopes, mining high grade ore from existing stopes and commencing mining operations from the higher grade Level 7 Semi Oxide (SOX) stope zone.

The major activities completed during the reporting period included:

- Ramping up of mining volumes from the SOX stope zone in early May 2019;
- Transitioning to ore tolling at the Aldama toll treatment plant ("Aldama") following the end of processing at the Grupo Mexico Santa Eulalia mine in May 2019;
- Commencement of upgrades to Aldama to increase production from 100 tonnes per day, to 200 tonnes per day through the installation of a second ball mill and further works during Q3 2019 to increase throughput towards 300 tonnes per day following an expansion of the flotation system to handle the extremely high grades of the SOX material.

Financial Performance and Financial Position

The net profit of the consolidated entity after income tax for the half year ended 30 June 2019 was US$0.561 million (six months to 31 December 2018: loss of US$2.521 million).

As at 30 June 2019, the Group had total assets of US$4.276 million (31 December 2018: US$3.448 million) and total liabilities of US$5.188 million (31 December 2018: US$5.153 million). Total cash was US$0.203 million (December 2018: US$0.185 million) and borrowings were US$2.141 million (31 December 2018: US$2.137 million).

On 5 August 2019 subsequent to balance date, the Group converted A$1.597 million of the principal value convertible notes plus A$0.164 million of capitalised interest into equity at 1 cent per share (in A$ terms).

SUBSEQUENT EVENTS

Other than set out below, no matters or circumstances have arisen since the end of the period ended 30 June 2019 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 5 August 2019, the holders of the convertible notes maturing between June 2020 to August 2020 totalling a principal balance of A$1.597 million plus accrued interest of A$0.167 million exercised their option to convert early into fully paid ordinary shares at 1.0 cent per share. The remaining convertible notes on issue following the conversion noted above on 5 August 2019 are A$1.053 million, and are all held by the Copulos Group, related to the non-executive Chairman Mr Stephen Copulos;
- On 4 September 2019, the Company and Retec Guaru S.A. de C.V ("Retec") entered into a Binding Term Sheet ("Term Sheet"), that will see Consolidated Zinc acquire the remaining 10% interest in its 90% owned subsidiary that holds the Plomosas Mine, Minera Latin American Zinc S.A.P.I de C.V. ("MLAZ"). The purchase consideration for the acquisition of the Retec interest in MLAZ is a 1% Net Smelter Return Royalty (the "Royalty") from the sale of zinc and lead concentrates produced from Plomosas;

DIRECTORS' REPORT

- On 5 September 2019, the Appeals Court of Chihuahua (the "Appeals Court") has ruled in favour of the Company's subsidiary, Minera Latin American Zinc S.A.P.I. de CV ("MLAZ") regarding a dispute over a Land Use Agreement with a local rancher in place for its 100%-owned Plomosas Zinc Mine in Mexico. The Appeals Court decision confirmed that MLAZ has a valid and legally enforceable Land Use Agreement (the "Agreement") with the rancher; and

- On 10 September 2019, the company announced a fully underwritten 1 for 6 rights issue at 1.1 cents per share to raise A$2.481 million and a placement of 90,909,091 shares at 1.1 cents to raise an additional A$1.000 million.

AUDITOR'S INDEPENDENCE

Section 307C of the Corporations Act 2001, requires our Auditors, HLB Mann Judd, to provide the Directors with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 37 and forms part of the Directors' report for the half year ended 30 June 2019.

This report is signed in accordance with a resolution of the Board of Directors pursuant to Section 306(3) of the Corporations Act 2001.

Brad Marwood

Managing Director

13 September 2019

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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Note	For the six months ended 30-Jun-19 USD	For the six months ended 31-Dec-18* USD
Sales revenue		4,201,410	483,449
Cost of sales		(3,633,505)	(87,171)
		567,905	396,278
Other income		60,759	-
Exploration and evaluation expenses		-	(257,509)
Administrative expense	6(a)	(239,437)	(365,884)
Personnel expenses	6(b)	(766,469)	(416,838)
Foreign exchange gain/(loss)		(91,731)	107,798
Fair value of financial instruments through profit or loss	6(c)	1,154,100	(1,023,155)
Interest expense		(124,548)	(88,951)
Finance expense		-	(360,738)
Profit/(loss) from continuing operations before income tax expense		560,579	(2,008,999)
Income tax expense		-	-
Profit/(loss) from continuing operations after income tax expense		560,579	(2,008,999)
Net profit/(loss) for the year		560,579	(2,008,999)
Attributable to:			
Equity holders of the parent entity		613,065	(876,346)
Non-controlling interests		(52,486)	(1,132,653)
Profit/(loss) for the year		**560,579**	**(2,008,999)**
Other comprehensive items that may be reclassified to profit or loss, attributable to:			
Equity holders of the parent entity		-	(49,314)
Non-controlling interests		-	(462,237)
Total other comprehensive income /(loss) for the year		**560,579**	**(2,520,550)**
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent entity		613,065	(925,660)
Non-controlling interests		(52,486)	(1,594,890)
Total comprehensive loss for the year		**560,579**	**(2,520,550)**
Earnings/(Loss) per share for loss attributable to the ordinary equity holders of the parent entity:			
Basic and diluted earnings/(loss) per share (cents per share)		0.052	(0.091)

*Restated as a result of a correction of error (note 17).

The accompanying notes form part of these financial accounts

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Note	As at 30-Jun-19 USD	As at 31-Dec-18* USD
Assets			
Current assets			
Cash & cash equivalents		203,214	184,826
Trade & other receivables	7	1,294,149	1,704,608
Inventory	8	1,348,877	66,671
Financial assets		705	564
Total current assets		2,846,945	1,956,669
Non-current assets			
Trade & other receivables	7	228,940	230,233
Property, plant & equipment	9 (a)	178,070	149,990
Right of use assets	9 (b)	52,661	-
Mine and development property	9 (c)	969,023	1,110,851
Total non-current assets		1,428,694	1,491,074
Total assets		**4,275,639**	**3,447,743**
Liabilities			
Current liabilities			
Trade & other payables	10	2,563,617	1,426,765
Borrowings	11	2,141,097	2,136,507
Lease liability		56,428	-
Derivative liabilities	11(a)(i)	427,122	1,590,009
Total current liabilities		5,188,264	5,153,281
Total liabilities		**5,188,264**	**5,153,281**
Net liabilities		**(912,625)**	**(1,705,538)**
Equity			
Issued capital	12	27,639,584	27,522,537
Reserves		(6,275,174)	(6,382,175)
Accumulated losses		(21,392,482)	(22,013,833)
Total equity attributable to owners of CZL		**(28,072)**	**(873,471)**
Non-controlling interest		**(884,553)**	**(832,067)**
Total deficiency		**(912,625)**	**(1,705,538)**

*Restated as a result of a correction of error (note 17).

The accompanying notes form part of these financial accounts

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Issued capital	Accumulated losses	Share-based Payments Reserve	Foreign Currency Translation Reserve	NCI Reserve	Owners of the Parent	Non-controlling Interest	Total
	USD	USD	USD	USD	USD	USD	USD	USD
For the six months ended 30 June 2019								
At 31 December 2018*	27,522,537	(22,013,833)	162,104	(1,007,123)	(5,537,156)	(873,471)	(832,067)	(1,705,538)
Implementation of AASB 16	-	(3,215)	-	-	-	(3,215)	-	(3,215)
At 31 December 2018 (adjusted for implementation of AASB 16)	27,522,537	(22,017,048)	162,104	(1,007,123)	(5,537,156)	(876,686)	(832,067)	(1,708,753)
Profit for the year after income tax from continuing operations	-	613,065	-	-	-	613,065	(52,486)	560,579
Total comprehensive income for the year	-	613,065	-	-	-	613,065	(52,486)	560,579
Transactions with owners in their capacity as owners:								
Conversion of convertible note	61,270	-	-	-	-	61,270	-	61,270
Exercise of performance rights	55,777	-	(55,777)	-	-	-	-	-
Expiry of performance rights	-	11,501	(11,501)	-	-	-	-	-
Share based payments	-	-	174,279	-	-	174,279	-	174,279
	117,047	11,501	107,001	-	-	235,549	-	235,549
At 30 June 2019	27,639,584	(21,392,482)	269,105	(1,007,123)	(5,537,156)	(28,072)	(884,553)	(912,625)

*Restated as a result of a correction of error (note 17).

The accompanying notes form part of these financial accounts

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 (continued)

	Issued capital	Accumulated losses*	Share-based Payments Reserve	Foreign Currency Translation Reserve	NCI Reserve	Owners of the Parent	Non-controlling Interest	Total
	USD	USD	USD	USD	USD	USD	USD	USD
For the six months ended 31 December 2018								
At 30 June 2018								
As originally reported	24,143,423	(12,952,255)	847,845	(918,879)	-	11,120,134	(492,130)	10,628,004
Change in accounting policy - reported in prior year	-	(8,806,523)	-	(38,930)	-	(8,845,453)	(1,912,068)	(10,757,521)
Correction of error - reported in prior year	-	(81,225)	-	-	-	(81,225)	(78,040)	(159,265)
At 30 June 2018	24,143,423	(21,840,003)	847,845	(957,809)	-	2,193,456	(2,482,238)	(288,782)
Profit/(Loss)for the year after income tax from continuing operations	-	(876,346)	-	-	-	(876,346)	(1,132,653)	(2,008,999)
Other comprehensive (loss) for the year	-	-	-	(49,314)	-	(49,314)	(462,237)	(511,551)
Total comprehensive income for the year	-	(876,346)	-	(49,314)	-	(925,660)	(1,594,890)	(2,520,550)
Transactions with owners in their capacity as owners:								
Issue of new shares net of issuance costs	2,810,954	-	-	-	-	2,810,954	-	2,810,954
Transactions with non-controlling interests	-	-	-	-	(5,537,156)	(5,537,156)	3,245,061	(2,292,095)
Conversion of convertible note	568,160	-	-	-	-	568,160	-	568,160
Reclassification of reserves	-	702,516	(702,516)	-	-	-	-	-
Share based payments	-	-	16,775	-	-	16,775	-	16,775
	3,379,114	702,516	(685,741)	-	(5,537,156)	(2,141,267)	3,245,061	1,103,794
At 31 December 2018*	27,522,537	(22,013,833)	162,104	(1,007,123)	(5,537,156)	(873,471)	(832,067)	(1,705,538)

*Restated as a result of a correction of error (note 17).

The accompanying notes form part of these financial accounts

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30-Jun-19 USD	For the six months ended 31-Dec-18 USD
Cash flows from operating activities		
Receipt from customers	4,826,116	-
Payments to suppliers and employees	(4,409,976)	(1,390,605)
Payment of interest	(14,422)	-
Net cash inflow/(outflow) from operating activities	**401,718**	**(1,390,605)**
Cash flows from investing activities		
Payment for property, plant and equipment	(44,509)	(38,460)
Payment for development	(217,848)	(651,150)
Payment for acquisition of equity investments	-	(545,599)
Net cash (outflow) from investing activities	**(262,357)**	**(1,235,209)**
Cash flows from financing activities		
Proceeds from issue of shares	-	1,097,760
Proceeds from convertible notes	-	1,127,570
Proceeds from borrowings	210,390	363,732
Repayment of borrowings	(331,363)	-
Payment of capital raising expenses	-	(16,966)
Net cash (outflow)/inflow from financing activities	**(120,973)**	**2,572,096**
Net increase/(decrease) in cash and cash equivalents	18,388	(53,718)
Foreign currency translation	-	(5,512)
Cash and cash equivalents at the beginning of the year	184,826	244,056
Cash and cash equivalents at the end of the year	**203,214**	**184,826**

The accompanying notes form part of these financial accounts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These half-year consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 ‘Interim Financial Reporting’, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (‘AASB’). Compliance with AASB 134 ensures compliance with IAS 34 ‘Interim Financial Reporting’.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 31 December 2018 and any public announcements made by the Company and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

Basis of preparation

The half-year financial report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets.

The Company is domiciled in Australia, the functional and presentation currency of the Group is United States Dollars and all amounts are presented in United States Dollars, unless otherwise noted.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

Change in presentation currency

An entity’s functional currency is the currency of the primary economic environment in which the entity operates. With the Group entering into agreements for sale of zinc concentrate, the Group’s exposure to US Dollars (USD) increased significantly. The Board recognised the change in the balance of factors that are assessed to determine the functional currency for each of the Group entities, and consequently, determined that the functional currency of all Group entities, including the parent, entity, has changed to USD, effective 1 January 2019. Previously, the functional currency of the Australian entities, including parent, was AUD, while the Mexican subsidiary’s functional currency was Mexican Peso (MXN).

Following the change in functional currency, the Company has elected to change its presentation currency from AUD to USD. To give effect to the change in presentation currency, the assets, liabilities, contributed equity, reserves and retained earnings of the parent entity as at 31 December 2018 were converted into US Dollars at a fixed exchange rate on 1 January 2019 of USD/AUD 0.70526. The presentation in USD is consistent with internal management reporting. The change in accounting policy was applied retrospectively and the comparatives restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Comparative information

Comparative information is presented for the half year ended 31 December 2018 and as at 31 December 2018. The Company changed its functional and presentation currency from Australian dollars (AUD) to United State Dollars (USD) effective 1 January 2019. Accordingly, the comparatives have been restated in USD.

Accounting policies and methods of computation

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the impact of the new and revised standards, as described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Adoption of new and revised standards

Standards and Interpretations applicable to 30 June 2019

In the half-year ended 30 June 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current reporting period.

As a result of this review, the Group has initially applied AASB 16 *Leases* from 1 January 2019. There is no material impact to the profit or loss or net assets on the adoption of this new standard in the current or comparative years, with the impact of AASB 16 *Leases* fully disclosed in Note 3.

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

Standards and interpretations in issue not yet adopted

No other new standards, amendments to standards and interpretations are expected to affect the Group's consolidated financial statements and have not been early adopted.

Significant accounting judgments and key estimates

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim report, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 31 December 2018.

Statement of compliance

The interim financial statements were authorised for issue by resolution of the Board of Directors.

The interim financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the interim financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Going concern

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

Working Capital Deficiency

As at balance date, the consolidated entity had a net working capital deficiency of $2.341 million. Included in the working capital deficiency are current liabilities of $5.188 million, which include $2.141 million of convertible notes and borrowings and associated accrued interest payable.

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 mining will be sufficient to repay the unsecured loans and other current liabilities;

- On 5 August 2019, the holders of the convertible notes maturing between June 2020 to August 2020 totalling a principal balance of A$1.597 million plus accrued interest of A$0.167 million exercised their option to convert early into fully paid ordinary shares at 1.0 cent per share. The remaining convertible notes on issue following the conversion noted above on 5 August 2019 are A$1.053 million, and are all held by the Copulos Group, related to the non-executive Chairman Mr Stephen Copulos;

- On 5 September 2019, the Appeals Court of Chihuahua (the "Appeals Court") has ruled in favour of the Company's subsidiary, Minera Latin American Zinc S.A.P.I. de CV ("MLAZ") regarding a dispute over a Land Use Agreement with a local rancher in place for its 100%-owned Plomosas Zinc Mine in Mexico. The Appeals Court decision confirmed that MLAZ has a valid and legally enforceable Land Use Agreement (the "Agreement") with the rancher; and

- On 10 September 2019, the company announced a fully underwritten 1 for 6 rights issue at 1.1 cents per share to raise A$2.481 million and a placement of 90,909,091 shares at 1.1 cents to raise an additional A$1.000 million.

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.

Should these events not be completed or production forecasts achieved, there is a material uncertainty that may cast significant doubt as to whether the Company will be able to realise its assets and extinguish its liabilities in the normal course of business.

2. SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

During the reporting period the Company:

- On 22 March 2019, the Group received notice from the legal representatives of Grupo Mexico, terminating the ore tolling and offtake agreements in place with the operator of Plomosas, Minera Latin American Zinc S.A.P.I de C.V ("MLAZ") with last ore deliveries in May 2019;
- On 29 March 2019, MLAZ executed an ore tolling agreement with well-established ore tolling provider Triturado y Minerales La Piedrera S.A de C.V. who operates the Aldama concentrator (the "Aldama Plant") located close to the Plomosas mine; and
- On the 29 March 2019, the Group extended the maturity dates of the convertible notes maturing between April 2019 and July 2019, to 30 June 2020.

In the opinion of the Directors, there were no other significant events or transactions during the reporting period.

3. CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of AASB 16 Leases on the group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 3(b) below.

The group has adopted AASB 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening Statement of Financial Position on 1 January 2019.

(a) Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 for leases in Australia and Mexico were 5.75% and 8.25%, respectively.

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Recognition of lease liability and right-of-use asset at 1 January 2019	USD
Lease liability at 1 January 2019	
Discounted using the lessee's incremental borrowing rate at the date of initial application	80,182
Of which are:	
Current lease liabilities	80,182
Right-of-use asset at 1 January 2019	
Measured on a retrospective basis	76,967

3. CHANGE IN ACCOUNTING POLICIES (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by $76,967
- lease liabilities – increase by $80,182.

The net impact on retained earnings on 1 January 2019 was a decrease of $3,215.

(b) New accounting policy

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). There are no extension options in the current lease agreements of the group.

4. 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 Managing Director is responsible for allocating resources and assessing performance of the operating segments.

5. DIVIDENDS

The Company did not pay or propose any dividends in the half year to 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROFIT AND LOSS INFORMATION

	For the six months ended 30-Jun-19 USD	For the six months ended 31-Dec-18* USD
a) Administrative expenses		
Administration	(24,623)	(67,549)
Consultancy and legal expenses	(48,812)	(160,664)
Compliance and regulatory expenses	(55,340)	(35,369)
Communication	(9,689)	(1,326)
Depreciation and amortisation	(15,768)	(156)
Occupancy	(2,448)	(14,318)
Travel and accommodation	(64,012)	(69,833)
Audit fees	(18,745)	(16,669)
	(239,437)	(365,884)
b) Personnel expenses		
Directors' fees	(224,882)	(153,706)
Employee expenses	(350,179)	(229,931)
Superannuation expense	(17,129)	(16,426)
Share-based payments	(174,279)	(16,775)
	(766,469)	(416,838)
c) Fair value of financial instruments through profit or loss		
Movement in fair value of derivatives	1,153,959	(1,023,155)
Movement in fair value of equity investments	141	-
	1,154,100	(1,023,155)

*Prior year restated as a result of a correction of error (note 17)

7. TRADE AND OTHER RECEIVABLES

	30-Jun-19 USD	31-Dec-18 USD
Current		
Trade receivables	15,488	625,439
Other receivable	32,876	14,210
Prepayments	130,529	91,026
Indirect taxes receivable[1]	1,115,256	973,933
	1,294,149	1,704,608
Non-current		
Receivable from the Plomosas Project minority holder[2]	228,940	230,233
	228,940	230,233

[1] The indirect tax receivable balances are mostly comprised of Value Added Tax (VAT) 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.

[2] The outstanding receivable from the Plomosas Project minority partner is repayable from operating profit distributions upon commencement of mining operations at Plomosas by Retec Guaru S.A. ("Retec").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVENTORY

	30-Jun-19 USD	31-Dec-18 USD
Warehouse inventory	104,501	66,671
Stockpiles	727,130	-
Concentrate	517,246	-
	1,348,877	66,671

9. NON-CURRENT ASSETS

a) Property, plant and equipment	30-Jun-19 USD	31-Dec-18 USD
Plant and Equipment		
At cost	235,900	192,356
Accumulated depreciation	(57,830)	(42,366)
	178,070	149,990
Movement in carrying amount		
Balance at the beginning of the year	149,990	104,204
Additions	60,140	45,628
Depreciation expense	(15,768)	(156)
Depreciation in Cost of Sales	(16,292)	-
Depreciation capitalised to exploration asset	-	(6,434)
Effect of foreign currency translation	-	6,748
Balance at the end of the period/year	178,070	149,990

b) Right of use asset	30-Jun-19 USD
Right of use asset	114,572
Accumulated amortisation	(61,911)
	52,661
Movement in carrying amount	
Carrying value at start of the period	76,967
Additions	-
Amortisation	(24,306)
Carrying value at the end of the period/year	52,661

The right of use asset was recognised on adoption of AASB16 *Leases* and is amortised over life of leases. Details regarding the recognition of the right to use asset are disclosed in note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. NON-CURRENT ASSETS (continued)

c) Mine and development property	30-Jun-19 USD	31-Dec-18 USD
Mine and development property		
At cost	1,346,178	1,110,851
Accumulated depreciation	(377,155)	-
	969,023	1,110,851
Movement in carrying amount		
Balance at the beginning of the year	1,110,851	-
Additions	235,327	196,555
Pre-commissioning revenue	-	(129,744)
Pre-commissioning costs	-	1,044,040
Amortisation	(377,155)	-
Balance at the end of the period/year	969,023	1,110,851

Impairment

The Group has identified an impairment indicator on its Plomosas Zinc-Lead-Silver Project given the loss for the six month period ending 30 June 2019. As the value of the Plomosas Zinc Lead Silver Project is larger than the cash-generating unit the value of the Mine and Development Property (US$969,023), has been used in assessing the recoverable amount. The recoverable amount of the project was determined based on a value in use calculation using cash flow projections using financial budgets approved by management. The discount rate applied to the value in use assessment was 10%. Based upon the value in use assessment, an impairment charge was not required.

10. TRADE AND OTHER PAYABLES

	30-Jun-19 USD	31-Dec-18 USD
Trade creditors	1,515,616	1,100,827
Other payables and accruals	992,713	313,212
Payroll clearing accounts	55,288	12,726
	2,563,617	1,426,765

11. BORROWINGS

		30-Jun-19 USD	31-Dec-18 USD
Short-term borrowings			
Convertible Notes	a)	1,560,933	1,449,634
Loans from related parties	b)	580,164	353,598
Short-term loan facility	c)	-	333,275
		2,141,097	2,136,507

a) Convertible Notes	30-Jun-19 USD	31-Dec-18* USD
Convertible notes on issue	1,381,775	1,362,143
Interest payable on convertible notes	179,158	87,491
	1,560,933	1,449,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. BORROWINGS (continued)

a) Convertible Notes (continued)

		30-Jun-19 USD	31-Dec-18* USD
Movement in convertible notes on issue			
Balance at the beginning of the year	*(i)*	1,362,143	1,073,230
Issued during the year		-	847,722
Notes converted to ordinary shares		(61,270)	(558,809)
Effect of foreign currency translation at period end		80,902	-
		1,381,775	1,362,143
Movement in interest payable on convertible notes on issue			
Balance at the beginning of the year		87,491	11,748
Interest on convertible notes for the period		92,280	85,095
Equity settled interest payable		-	(9,352)
Effect of foreign currency translation at period end		(613)	-
		179,158	87,491
		1,560,933	1,449,634

* The Group restated the balance of convertible notes at 31 December 2018 upon correcting a prior year error (note 17) and recognising a derivative liability arising from the option conversion feature of the convertible notes.

There were no issues of convertible notes during half year period ended 30 June 2019.

During the period, an existing note of $61,270 (A$85,156) was converted to 7,096,333 ordinary shares. The converted note was at zero interest and it was converted at 1.2 cents per share (in A$ terms).

All convertible notes are denominated in Australian Dollars (AUD), which results in recognition of foreign currency gain or loss on translation to the functional currency.

(i) Derivative liability

On 30 June 2018, the Group recognised a derivative liability of $321,422 in respect to its convertible notes. The movement in the derivative liability for the six months ended 30 June 2019, was as follows:

	30-Jun-19 $	31-Dec-18 $
Opening balance	1,590,009	321,423
Embedded derivative at inception of notes issued during the year	-	245,431
Fair value through profit or loss (note 6(c))	(1,153,959)	1,023,155
Effect of foreign currency translation at period end	(8,927)	1
Closing balance	427,122	1,590,009

The Group classifies its derivative liabilities at fair value through profit or loss (FVPL) on initial recognition. The derivatives are re-measured to fair value at each balance sheet date and any movement in that fair value is taken directly to the income statement.

11. BORROWINGS (continued)

b) Loans from related parties		**30-Jun-19 USD**	**31-Dec-18 USD**
Loan principal		561,040	352,630
Interest payable		19,124	968
		580,164	353,598
Movement in loans from related parties			
Balance at the beginning of the year		352,630	-
Loan from directors	*(i)*	209,100	352,630
Effect of foreign currency translation at period end		(690)	-
		561,040	352,630
Movement in interest on loans from related parties			
Balance at the beginning of the year		968	-
Interest for the period		16,722	968
Effect of foreign currency translation at period end		1,434	-
		19,124	968
		580,164	353,598

(i) During the half-year period ended 30 June 2019, the Company entered into a short-term funding arrangement with an entity related to a director of the Company, Stephen Copulos. Under the terms of the arrangement, Mr Copulos provided A$300,000 as a short-term unsecured loan facility to the Company. The loan is provided with a 10% interest rate and is repayable, inclusive of interest by 30 June 2020.

The original repayment date of the existing loans from related parties, 30 September 2019, has been extended to 30 June 2020.

c) Short-term loan facility	**30-Jun-19 USD**	**31-Dec-18 USD**
Movement in short-term loan facility		
Balance at the beginning of the year	331,363	-
Reclassified from other payables	-	331,363
Repaid during the period	(331,363)	-
	-	331,363
Movement in interest		
Balance at the beginning of the year	1,912	-
Interest for the period	13,296	1,912
Repaid during the period	(15,208)	-
	-	1,912

During the six months period ended 30 June 2019, the Company repaid the outstanding balance and the associated interest on the short-term loan facility to Jetosea Pty Ltd ("Jetosea").

12. ISSUED CAPITAL

a) Share capital

	30-Jun-19 Number of shares	30-Jun-19 USD	31-Dec-18 Number of shares	31-Dec-18 USD
Ordinary shares paid net of costs	1,177,186,027	27,639,584	1,165,339,694	27,522,537

Reconciliation of movement in Issued capital		Issue price (A$ cents)	Number of shares	USD
	Balance at 1 July 2018		**924,938,165**	**24,143,423**
01-Jul-18	Exercise of options	2.40	22	-
25-Oct-18	Share issue under SPP	2.40	53,709,206	909,096
25-Oct-18	Placement to existing shareholders	2.40	4,166,667	70,526
25-Oct-18	Placement to existing shareholders	2.34	5,000,000	84,630
14-Dec-18	Equity settled interest on convertible notes	1.20	1,326,027	9,352
14-Dec-18	Conversion of convertible notes	1.20	49,362,000	417,757
14-Dec-18	Conversion of convertible notes	1.00	20,000,000	141,052
24-Dec-18	Acquisition of 39% interest in MLAZ	2.34	106,837,607	1,763,150
	Issuance costs		-	(16,449)
	Balance at 31 December 2018		**1,165,339,694**	**27,522,537**
	Balance at 1 July 2019		**1,165,339,694**	**27,522,537**
22-Jan-19	Convertible Note	1.20	7,096,333	61,270
22-Jan-19	Conversion of performance rights	1.67	1,500,000	17,614
24-Jan-19	Conversion of performance rights	1.67	2,950,000	34,640
19-Jun-19	Shares granted as remuneration	1.67	50,000	587
19-Jun-19	Conversion of performance rights	1.67	250,000	2,936
	Issuance costs		-	-
	Balance at 30 June 2019		**1,177,186,027**	**27,639,584**

b) Options over ordinary shares

Options over ordinary shares	30-Jun-19 Number of options	30-Jun-19 Exercise price per option (A$)	31-Dec-18 Number of options	31-Dec-18 Exercise price per option (A$)
Outstanding at the beginning of the period	104,033,904	-	234,205,906	-
Granted - unlisted employee options	1,250,000	6.06	-	-
Expired	(2,000,000)	0.06	(130,172,002)	0.06
Outstanding at the end of the period	**103,283,904**		**104,033,904**	
Exercisable at the end of the period	**101,033,904**		**101,033,904**	

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 18.67 months (31 December 2018: 25.04 months).

Weighted average price of the remaining options is A$0.04 (31 December 2018: A$0.04) per option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ISSUED CAPITAL (continued)

c) Performance rights

Performance rights	30-Jun-19 Number of PRs	31-Dec-18 Exercise price per PR ($)	31-Dec-18 Number of PRs	30-Jun-18 Exercise price per PR
Outstanding at the beginning of the period	12,000,000		6,500,000	
Granted during the period	132,700,000	-	5,500,000	-
Exercised	(4,700,000)	-	-	-
Expired	-	-	-	-
Outstanding at end of the period	**140,000,000**		**12,000,000**	

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 28.04 months (31 December 2018: 13.85 months).

d) Capital 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 31 December 2018 Annual Report.

	30-Jun-19 USD	31-Dec-18 USD
Cash and cash equivalents	203,214	184,826
Financial assets	705	564
Inventory	1,348,877	66,671
Trade and other receivables	1,294,149	1,641,548
Trade and other payables	(2,563,617)	(1,426,765)
Borrowings	(2,141,097)	(2,163,507)
Lease liability	(56,428)	-
Working capital position	**(1,914,197)**	(1,606,603)

13. SHARE-BASED PAYMENTS

a) Non-plan payments

The Company may at times issue share-based payments to Directors, Employees, 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 the Company. Any share-based payment to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. SHARE-BASED PAYMENTS (continued)

b) Performance Rights Plan (PRP)

Shareholders approved the Consolidated Zinc Limited PRP at the Annual General Meeting held on 23 May 2019. 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 PRP 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 terms and conditions of the award of the performance rights.

c) Expenses arising from share-based payment transactions

During the period, $174,279 was recognised as a share-based payment expense (31 December 2018: $16,775).

d) Shares granted as compensation

A total of 50,000 ordinary shares were granted as compensation to a director. The share price at the grant date was A$0.013 per share resulting in a share based payment expense of $587.

e) Performance rights granted

A total of 132,700,000 performance rights were issued during the six months ended 30 June 2019.

The performance rights were issued to Directors and Key Management Personnel ("KMP") as a key component of the incentive portion of their remuneration in order to provide incentive linked to the performance of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. SHARE-BASED PAYMENTS (continued)

The performance rights were granted in thirteen tranches, at nil exercise price and with the vesting conditions and milestone dates set out below:

Class	Performance Condition	Number Granted	Grant Date	Expiry date	Share price at grant date (A$ cents)	Value per PR (A$ cents)
Class D	JORC: (1) ≥1.75mT OR 275KT Zn+Pb contained	1,500,000	8-Jan-19	30-Dec-19	1.90	1.90
Class E	JORC: (2) 2.00MT or 320kt Zn+Pb contained	1,500,000	8-Jan-19	30-Dec-19	1.90	1.90
Class F	JORC: (3) 2.5Mt or 400kt Zn+Pb contained	1,500,000	8-Jan-19	30-Dec-19	1.90	1.90
Class G	Mine production: (1) ≥3,000 tpm	950,000	8-Jan-19	30-Dec-19	1.90	1.90
Class H	Mine production: (2) ≥8,000 tpm	1,750,000	8-Jan-19	30-Dec-19	1.90	1.90
Class I	Mine production: (3) ≥16,000 tpm	1,750,000	8-Jan-19	30-Dec-19	1.90	1.90
Class J	Mine Operations: (1) Maintain C3 costs below US$0.50/lb Zn for 3 months before end 2019	1,000,000	8-Jan-19	30-Dec-19	1.90	1.90
Class K	Mine Operations: (2) Maintain positive cashflow for 6 months before end of 2019 (Net cashflow increased)	1,000,000	8-Jan-19	30-Dec-19	1.90	1.90
Class L	Site Safety: (3a) LTI Trending down to end 2019	1,000,000	8-Jan-19	30-Dec-19	1.90	1.90
Class M	Site Safety: (3b) Zero death on site to end 2019	1,000,000	8-Jan-19	30-Dec-19	1.90	1.90
Class N	Site Safety: (3c) LTI free 50,000h, Contractors included	1,000,000	8-Jan-19	30-Dec-19	1.90	1.90
Class O	Long-term Performance: (1) Market Cap A$100m over 20 consecutive days	71,250,000	27-Mar-19	31-Dec-21	1.40	0.52
Class P	Long-term Performance: (2) Market Cap A$200m over 20 consecutive days	47,500,000	27-Mar-19	31-Dec-21	1.40	0.31
	Total granted	**132,700,000**				

The fair value of the performance rights granted during the period ended 30 June 2019 was determined using the Black-Scholes valuation method and the model inputs were as set out in the table above, with nil exercise price.

Total fair value of performance rights granted during the period is A$760,095, which will be expensed over their respective lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. SHARE-BASED PAYMENTS (continued)

f) Options over ordinary shares granted

The fair value of the options granted during the period ended 30 June 2019 was determined using the Black-Scholes valuation method and the model inputs were as set out in the following table:

Class	Performance Condition	Number Granted	Grant Date	Expiry date	Share price at grant date (A$ cents)	Exercise price (A$ cents)	Value per option (A$ cents)
Class EE	Continued service	1,250,000	19-Jun-19	30-Jun-20	1.30	6.00	0.18

Total fair value of options granted during the period is A$2,250, which will be expensed over the life of options.

14. RELATED PARTIES

a) Transactions with related parties

During the half-year ended 30 June 2019, the Group entered into an amendment to its loan agreement with its non-executive director Stephen Copulos to extend the maturity date and draw additional funds, as disclosed in note 11(b).

b) Non-controlling interests

	30-Jun-19 USD	31-Dec-18 USD
Summarised balance sheet		
Current assets	3,199,933	1,677,239
Current liabilities	(3,036,517)	(1,081,416)
Current net assets/(liabilities)	163,416	595,823
Non-current assets	1,164,639	1,259,453
Non-current liabilities	(13,172,815)	(13,172,815)
Non-current net assets/(liabilities)	(12,008,176)	(11,913,362)
Net assets/(liabilities)	(11,844,760)	(11,317,539)
Accumulated NCI	(884,553)	(832,067)
Summarised statement of comprehensive income		
Revenue	5,176,622	483,449
(Loss)/profit for the period	(524,864)	(2,311,538)
Total comprehensive (loss)/income	(524,864)	(2,823,089)
(Loss)/profit allocated to NCI	(52,486)	(1,132,653)
Summarised cash flows		
Cash flow from operating activities	1,075,565	(686,195)
Cash flow from investing activities	(255,476)	(668,561)
Cash flow from financing activities	(737,356)	1,356,658
Net (decrease)/increase in cash and cash equivalents	82,733	1,902

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. COMMITMENTS AND CONTINGENCIES

a) Commitments

The group has commitments in respect to its tenement annual rental and licence costs in Mexico:

	30-Jun-2019 USD	31-Dec-2018 USD
not later than 12 months	158,568	154,631
between 12 months and 5 years	618,524	618,524
greater than 5 years	4,609,976	4,650,148
	5,387,068	5,423,303

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 S.A.P.I de C.V. ("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, of 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.

16. 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 Managing Director 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 US Dollar ("$)"; revenue from the sale of zinc ore is denominated in US Dollars, as are the majority of the Group's operating costs, with other operating costs denominated and paid in Mexican Peso and/or Australian Dollars.

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 the US dollars except as set out below:

	30-Jun-19 USD	31-Dec-18* USD
Cash and cash equivalents held in MXN	22,483	6,427
Cash and cash equivalents held in AUD	70,700	178,421
Trade and other receivables in MXN	507	-
Trade and other receivables in AUD	284,877	237,769
Indirect taxes receivable in MXN	1,589,473	966,380
Trade and other payables in MXN	(1,363,683)	(857,038)
Trade and other payables in AUD	(72,131)	(154,939)
Borrowings in AUD	(2,141,097)	(2,136,507)
Derivatives in AUD	(427,122)	(1,590,009)
	(2,035,993)	(3,349,496)

*Prior year restated as a result of a correction of error (note 17)

Group sensitivity

Based on the financial instruments held at 30 June 2019, had the above currencies strengthened/weakened by 10% against the US Dollar with all other variables held constant, the Group's post tax loss for the half year would have been $203,599 higher/$203,599 lower (six months to 31 December 2018: $359,496 higher/$359,493 lower), mainly as a result of foreign exchange gains/losses on translation of financial instruments denominated in Mexican Pesos and Australian Dollars. There would have been no impact on other equity had the same currencies weakened/strengthened by 10% against the US Dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FINANCIAL INSTRUMENTS (continued)

(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 zinc, lead and silver. Commodity price risk associated with financial instruments relates primarily to changes in fair value caused by settlement adjustments to receivables.

At 30 June 2019, the Group had no open quotational pricing risk exposure to zinc, lead and silver commodity price risk.

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 30 June 2019 were as follows:

Financial assets and liabilities	Six months to 30-Jun-19 USD	Six months to 31-Dec-18* USD
Financial assets		
Cash and cash equivalents	203,214	184,826
Equity investments through profit or loss	705	564
Trade and other receivables - current	1,294,149	1,704,608
Trade and other receivables – non current	228,940	230,234
Total Financial Assets	1,727,008	2,120,232
Financial Liabilities		
Trade and other payables	2,563,617	1,426,765
Borrowings	2,141,097	2,136,507
Lease liability	56,428	-
Derivatives	427,122	1,590,009
Total Financial Liabilities	5,188,264	5,153,281

*Prior year restated as a result of a correction of error (note 17)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FINANCIAL INSTRUMENTS (continued)

(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.

Financial liabilities	Less than 6 months USD	6-12 months USD	Total contractual USD	Carrying amount of liabilities USD
As at 30 June 2019				
Non-derivatives				
Non-interest bearing	2,563,617	-	2,563,617	2,563,617
Interest bearing	605,605	1,591,919	2,197,525	2,197,525
Total non-derivatives	3,169,222	1,591,919	4,761,142	4,761,142
As at 31 December 2018				
Non-derivatives				
Non-interest bearing	1,426,767	60,057	1,486,824	1,486,824
Interest bearing	1,409,097	667,353	2,076,450	2,076,450
Total non-derivatives	2,835,864	727,410	3,563,274	3,563,274

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 Statement of Financial Position. 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 Statement of Financial Position and notes to the financial statements.

Credit risk	30-Jun-19 USD	31-Dec-18 USD
Indirect taxes receivable in foreign jurisdictions	1,636,770	966,380
Trade receivables	-	624,930
	1,636,770	1,591,310

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 offtake customer for all each of its zinc and lead concentrate.

16. FINANCIAL INSTRUMENTS (continued)

(b) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair values of the Group's non-derivative financial assets and financial liabilities approximate their carrying values.

	Floating interest rate USD	Fixed interest rate 1 year or less USD	Non-interest bearing USD	Total USD	Weighted effective interest rate %
At 30 June 2019					
Financial assets					
Cash	203,214	-	-	203,214	-
Investments held for trading	-	-	705	705	-
Trade and other receivables - current	-	-	1,294,149	1,294,149	-
Trade and other receivables - non-current	-	-	228,940	228,940	-
Total non-derivative financial assets	**203,214**	**-**	**1,523,794**	**1,727,008**	
Financial liabilities					
Trade and other payables	-	-	2,563,617	2,563,617	-
Borrowings (excluding lease liability)	-	2,141,097	-	2,141,097	10
Lease liability	-	56,428	-	56,428	-
Total non-derivative financial liabilities	**-**	**2,197,525**	**2,563,617**	**4,761,142**	
At 31 December 2018					
Financial assets					
Cash	184,826	-	-	184,826	
Investments held for trading	-	-	564	564	
Trade and other receivables - current	-	-	1,704,607	1,704,607	
Trade and other receivables - non-current	-	-	230,234	230,234	
Total non-derivative financial assets	**184,826**	**-**	**1,935,405**	**2,120,231**	
Financial liabilities					
Trade and other payables	-	-	1,426,767	1,426,767	
Borrowings	-	2,076,450	60,057	2,136,507	10
Total non-derivative financial liabilities	**-**	**2,076,450**	**1,486,824**	**3,563,274**	

17. PRIOR PERIOD ERROR

During the six months ended 30 June 2019, the Company undertook a detailed review of its convertible note contracts and determined that terms of the contracts were misinterpreted in prior years. As a consequence, the Company recognised the debt liability, but not the derivative liability arising from fair valuing instruments' conversion option.

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

	31-Dec-18		
Statement of financial position	Previous amount $	Increase/(Decrease) $	Restated amount $
Convertible notes	2,703,360	(566,855)	2,136,507
Derivative liability	-	1,590,009	1,590,009
Net assets	(682,382)	(1,023,156)	(1,705,538)
Accumulated losses	(20,990,677)	(1,023,156)	(22,013,833)
Total equity attributable to equity holders of the parent entity	149,685	(1,023,156)	(873,471)

	31-Dec-18		
Statement of profit or loss and other comprehensive income	Previous amount $	Increase/(Decrease) $	Restated amount $
Fair Value of financial instruments through profit or loss	-	(1,023,155)	(1,023,155)
Profit/(Loss) after tax attributable to equity holders of the parent entity	146,810	(1,023,156)	(876,346)
Basic and diluted loss per share (cents per share)	0.0153	(0.107)	(0.091)

The amounts disclosed above for the six months ended 31 December 2018, and for the Statement of Financial Position as at 31 December 2018. The comparative period disclosures were restated for the correction of error: note 6(c), note 11(a) and note 16(a).

The derivative liability is measured at fair value through profit or loss (FVTPL) using the Monte Carlo valuation model; the model inputs include the underlying share price, volatility, risk-free rate, conversion exercise price and time to expiry.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Other than set out below, no matters or circumstances have arisen since the end of the period ended 30 June 2019 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 5 August 2019, the holders of the convertible notes maturing between June 2020 to August 2020 totalling a principal balance of A$1.597 million plus accrued interest of A$0.167 million exercised their option to convert early into fully paid ordinary shares at 1.0 cent per share. The remaining convertible notes on issue following the conversion noted above on 5 August 2019 are A$1.053 million, and are all held by the Copulos Group, related to the non-executive Chairman Mr Stephen Copulos;

- On 4 September 2019, the Company and Retec Guaru S.A. de C.V ("Retec") entered into a Binding Term Sheet ("Term Sheet"), that will see Consolidated Zinc acquire the remaining 10% interest in its 90% owned subsidiary that holds the Plomosas Mine, Minera Latin American Zinc S.A.P.I de C.V. ("MLAZ"). The purchase consideration for the acquisition of the Retec interest in MLAZ is a 1% Net Smelter Return Royalty (the "Royalty") from the sale of zinc and lead concentrates produced from Plomosas;

- On 5 September 2019, the Appeals Court of Chihuahua (the "Appeals Court") has ruled in favour of the Company's subsidiary, Minera Latin American Zinc S.A.P.I. de CV ("MLAZ") regarding a dispute over a Land Use Agreement with a local rancher in place for its 100%-owned Plomosas Zinc Mine in Mexico. The Appeals Court decision confirmed that MLAZ has a valid and legally enforceable Land Use Agreement (the "Agreement") with the rancher; and

- On 10 September 2019, the company announced a fully underwritten 1 for 6 rights issue at 1.1 cents (in A$ terms) per share to raise A$2.481 million and a placement of 90,909,091 shares at 1.1 cents (in A$ terms) to raise an additional A$1.000 million.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 9 to 35 are in accordance with the *Corporations Act 2001*, including:
   (i) Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
   (ii) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half-year ended on that date and

(b) There are reasonable grounds to believe that Consolidated Zinc Limited 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 directors.

Brad Marwood
Managing Director
Perth
13 September 2019

HLB MANN JUDD
ADVISORY AND ACCOUNTING

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated interim financial report of Consolidated Zinc Limited for the half-year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
13 September 2019

M R Ohm
Partner

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Consolidated Zinc Limited

Report on the Condensed Interim Financial Report

Conclusion

We have reviewed the accompanying interim financial report of Consolidated Zinc Limited ("the Company") which comprises the condensed consolidated statement of financial position as at 30 June 2019, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half-year ended on that date; and

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

Emphasis of matter - material uncertainty related to going concern

We draw attention to Note 1 in the interim financial report, which indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M R Ohm
Partner

Perth, Western Australia
13 September 2019