



**ABN 27 118 554 359**

# **Annual Report**

**Year ended 31 December 2019**

## CORPORATE DIRECTORY

### DIRECTORS

Brad Marwood – Managing Director  
Andrew Richards – Executive Director  
Angela Pankhurst – Non-Executive Director

### COMPANY SECRETARY

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 12, QV1 Building  
250 St Georges Terrace  
PERTH WA 6000

### 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 (WA Partnership)  
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](http://www.consolidatedzinc.com.au)

Email: [info@conzinc.com.au](mailto:info@conzinc.com.au)

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## CHAIRMAN'S LETTER

Dear Fellow Consolidated Zinc Shareholders

As you are aware 2019 was a difficult year for the global zinc market and Consolidated Zinc's operations at its wholly owned Plomosas zinc mine in Mexico. This was exacerbated by the onset of the coronavirus pandemic that has thrown the world into turmoil and directly impacted on all of us through the world's economies and demand.

Consolidated Zinc has addressed the threats posed by the COVID-19 pandemic and taken recommended precautions at every level. Our Perth and Mexico offices were closed, operational staff at Plomosas were reduced in number by 18% and expatriate staff ceased all travel. Despite this disruption, mine operations continued with appropriate safeguards and personal protection equipment.

Notwithstanding the obvious challenges, I am pleased to say the Company continues to tackle operating costs and mine efficiencies and can rely on the underlying fundamentals of Plomosas mine. Plomosas remains a high grade mine with mining average grades during 2019 averaging of 13.5% Zn and 5.8% Pb which increased in the latter quarters.

We are also bringing forward the mining of higher grade stopes, improving unit operating costs through increased operational availability and delivering higher mined head grades to offset reduced commodity prices.

Operational changes have been made aimed at improving productivity and operating costs at Plomosas. In November 2019, CZL terminated the mining contract in favour of owner operating mining. We believed that we could operate the Plomosas mine at lower cost, higher productivity and more efficiently than the mining contractor.

I am pleased to advise that after two full months of owner operated mining we have halved the cost of ore mined and improved production rates.

We expect to see that trend increasing into 2020 and are now addressing improvements in the processing plant performance to meet mine production.

On the exploration front we are looking to unlock the potential that lies within the Plomosas project concessions, in terms of both zinc resource definition and the recently announced gold exploration results. We are excited by the potential to increase the value of the Companies asset base particularly with gold in a strengthening gold market.

Rock chip results from early stage exploration in late 2019 demonstrate the presence of a gold mineralised system within the Company's existing Plomosas concessions. These results are very encouraging and identified 8 prospects that warranted further exploration.

More gold exploration is planned and we will fund our gold exploration effort through a fully underwritten, non-renounceable entitlement offer to Eligible Shareholders to raise approximately \$1.71 million (before costs) in the second quarter of 2020.

Consolidated Zinc has a clear strategy to improve operations at Plomosas, and there is an opportunity to focus on gold mineralisation within our existing concessions at a time when the global gold market is strong. The Company also plans to develop strategies to maximise the value and potential of its zinc assets. We believe the signs are encouraging and I would like to thank all our Shareholders for their ongoing support. I hope you continue with us as we strive to deliver value during what will be a significant 2020 for the Company.

Yours sincerely,

Andrew Richards

Non-executive Chairman



## ANNUAL MINERAL RESOURCE STATEMENT

### PLOMOSAS PROJECT, CHIHUAHUA STATE, MEXICO (CONSOLIDATED ZINC 100%)

**Table 1: Total Plomosas April 2020 Mineral Resources Mining Depleted at 31 December 2019  
Reported above a 3.0% Zn cut-off grade**

Prospect	Indicated Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag Oz
Level 7	85,000	19.7	9.5	57.7	17,000	8,000	157,000
Tres Amigos	42,000	7.7	2.3	12.0	3,000	1,000	16,000
Tres Amigos North	38,000	7.8	3.6	13.1	3,000	1,000	16,000
<b>Total</b>	<b>165,000</b>	<b>13.2</b>	<b>6.3</b>	<b>35.7</b>	<b>23,000</b>	<b>10,000</b>	<b>189,000</b>

Prospect	Inferred Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag Oz
Level 7	146,000	13.6	6.4	31.7	20,000	9,000	149,000
Tres Amigos	439,000	14.0	1.2	11.6	62,000	5,000	163,000
Carola	59,000	11.5	5.1	31.4	7,000	3,000	60,000
Las Espadas	77,000	10.5	4.2	14.8	8,000	3,000	36,000
Tres Amigos North	78,000	10.1	3.6	16.7	8,000	3,000	42,000
<b>Total</b>	<b>799,000</b>	<b>13.0</b>	<b>3.0</b>	<b>17.5</b>	<b>104,000</b>	<b>24,000</b>	<b>450,000</b>

Prospect	Total Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag Oz
Level 7	231,000	15.8	7.6	41.2	37,000	17,000	306,000
Tres Amigos	481,000	13.5	1.3	11.6	65,000	6,000	179,000
Carola	59,000	11.5	5.1	31.4	7,000	3,000	60,000
Las Espadas	77,000	10.5	4.2	14.8	8,000	3,000	36,000
Tres Amigos North	116,000	9.4	3.6	15.5	11,000	4,000	58,000
<b>Total</b>	<b>964,000</b>	<b>13.2</b>	<b>3.5</b>	<b>20.6</b>	<b>127,000</b>	<b>34,000</b>	<b>639,000</b>



Table 2: Total Plomosas Mineral Resources at 31 December 2018 Reported above a 3.0% Zn cut-off grade							
Prospect	Indicated Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag 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
<b>Total</b>	<b>242,000</b>	<b>14.5</b>	<b>5.2</b>	<b>32.9</b>	<b>35,100</b>	<b>12,500</b>	<b>256,400</b>

Prospect	Inferred Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag 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
<b>Total</b>	<b>935,000</b>	<b>12.0</b>	<b>3.2</b>	<b>19.4</b>	<b>112,100</b>	<b>30,000</b>	<b>584,000</b>

Prospect	Total Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag 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
<b>Total</b>	<b>1,178,000</b>	<b>12.5</b>	<b>3.6</b>	<b>22.2</b>	<b>147,100</b>	<b>42,600</b>	<b>840,400</b>

### Review of material changes

The depletion in the mineral resources are due to mining depletion at Tres Amigos and Level 7 SOX during the reporting period. The Plomosas Mineral Resource model was revised in April 2020 incorporating knowledge gained from mining operations before the end of December 2019 and included, all mining depleted areas, the revised structural interpretation and geological modelling to reflect the additional geological data. Grade control assays and orebody definition work were also incorporated in the April 2020 Plomosas Mineral Resource model.

The total difference between the April 2018 Mineral Resource estimate and the April 2020 Mineral Resource estimate before mining depletion was 214,000 tonnes of ore at 9.39% Zn, 4.01% Pb and 28.33g/t Ag. The mining depletion was 47,575 tonnes of ore at 12.83% Zn, 5.34% Pb and 31.74g/t Ag.

### 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 Expedito 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 Steve Boda, a Competent Person who is a Member of the Australian Institute of Geoscientists. Mr Boda 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 Boda 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 Project

During the year, the Group focused on optimising operations at its flagship high grade zinc-lead-silver Plomosas mine in the state of Chihuahua, having commenced mining in September 2018. Chihuahua hosts a prolific zinc-lead mineralised belt, and Plomosas has been mined periodically since 1943.

The Plomosas Project covers 11 mining concessions totalling 3,019ha in area with an extensive history of exploration and development in base metal operations, with 1 additional exploration concession under application. 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"). In September 2019 CZL acquired the remaining 10% interest in MLAZ, consolidating ownership of the Plomosas Project to 100%.

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 crosscut 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 of 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.



## REVIEW OF OPERATIONS

CZL announced a maiden mineral resource for Plomosos in December 2016, which was 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.

During the last quarter rock chip samples were taken from areas within the Project which appear highly prospective for gold. Assays up to 61.0 g/t Au and 27.5 g/t Au were returned after year end (further details under Regional Exploration).

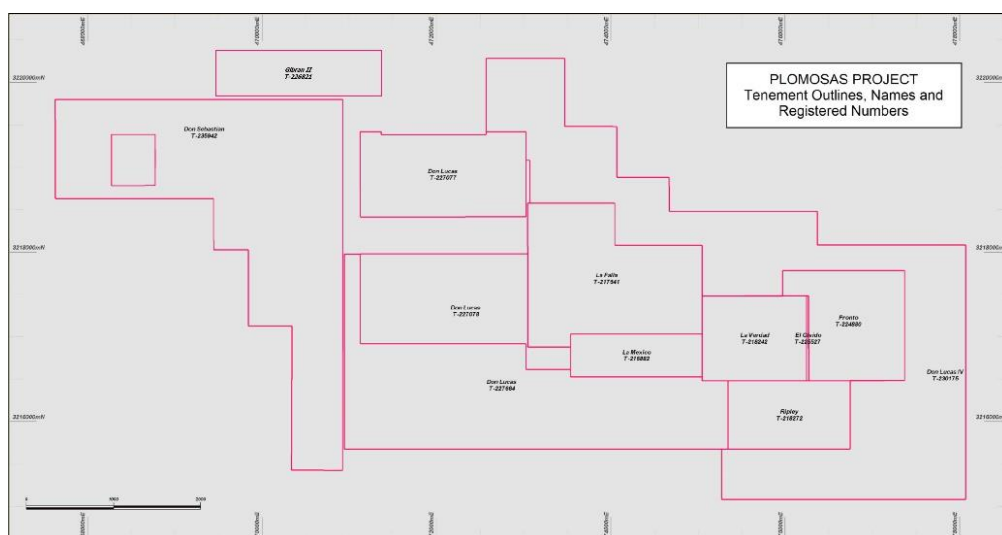


Figure 2. Plomosos Project tenement plan.



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



## REVIEW OF OPERATIONS

### MINING OPERATIONS

During 2019, CZL's first year of commercial production, ore mined was 43,721 tonnes at 13.3% zinc and 5.8% lead. Waste mined was 22,325 tonnes, with 1,725 metres of underground development.

Mining activities included on-ore development and stope mining in stages to maintain production and access high grade ore from existing stopes before commencing mining operations from the higher grade Level 7 Semi Oxide (SOX) stope zone. By the end of the year, stope mining of the semi -oxide ore ("SOX") between Level 7 and Level 9 was well underway using room and pillar mining with gallery stopes developed where the ground support allows. The rises between sublevel 888mRL and sublevel 921m RL provide access into the stoping areas.

The mining contract was terminated, and the mining contractor demobilised from Plomosas during the last week of November 2019. Plomosas secured a rental underground loader and purchased 2 new haul trucks to commence owner operated mining. The equipment arrived during early December and was commissioned by the 16 December 2019. Staffing was built up and operations continued to improve with a near full complement of staff at the end of the year.

The Company's decision to terminate the mining contractor, was a result of an annual review of the contractors performance and productivity, and a review of their progress claims which identified significant overcharging and their underperformance at the Plomosas mine, completing approximately 60% of their contracted scope of works during the first 12 months of the contract.

### PROCESSING

A total of 44,097 tonnes of ore were processed during the year, producing 3,243 tonnes of payable zinc, 769 tonnes of payable lead and 10,040 ounces of payable silver.

All processing was done under toll treatment arrangements with third parties, initially with Grupo Mexico. Then, after they terminated the contract in April, MLAZ executed an ore toll treatment agreement with a well-established toll treatment provider Triturado y Minerales La Piedrera S.A. de CV, which operates the Aldama concentrator facility (the "Aldama Plant"), located close to the Plomosas Mine.

CZL and Aldama management worked collaboratively on upgrades to the plant, including the installation of a second ball mill, to increase production from 100 tonnes to up to 300 tonnes per day. During the Christmas shut-down period, maintenance was undertaken on the plant, modifications were made to the reagent dosing equipment. These and other measures taken are designed to further increase reliability and recoveries which have been improving through the year.

The recovery improvements are also a reflection of the ongoing work with the University of Chihuahua and the implementation of the findings by the MLAZ plant management team during the quarter.

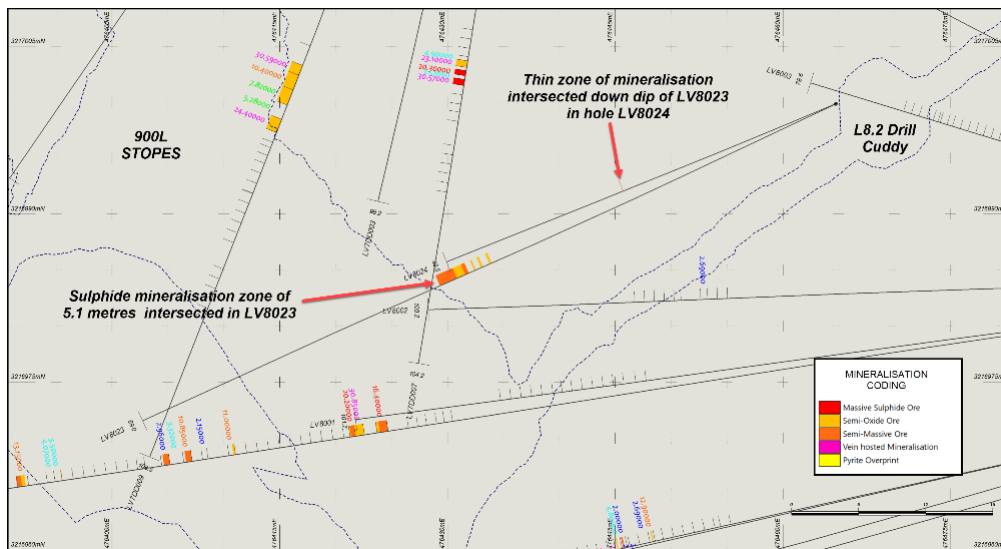
### EXPLORATION

No exploration activities were undertaken until the last quarter of the year, with the focus until then being on mining operations and planning future exploration activities.

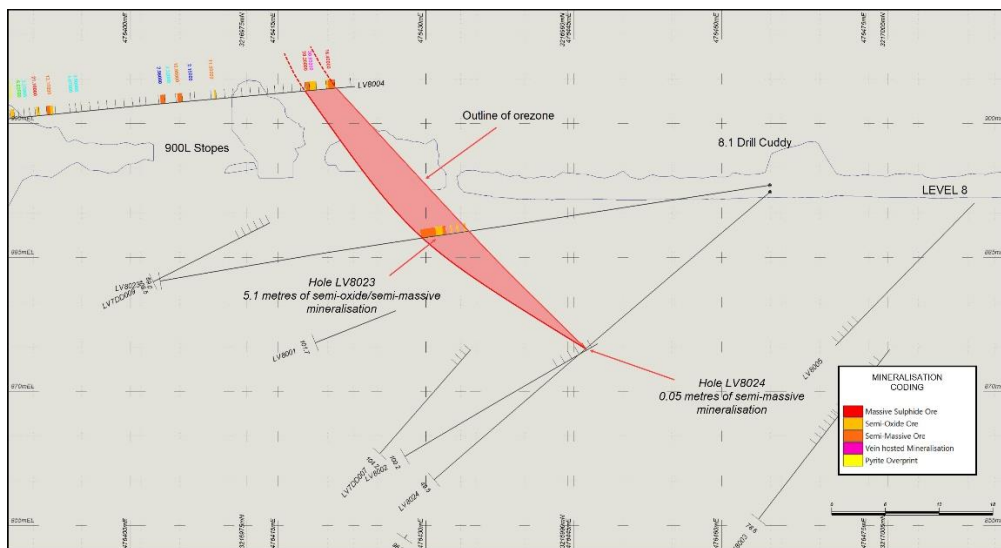
#### SOX Extensional Drilling – Level 7

Underground drilling and development commenced in Level 7 during the December quarter. A total of two drill holes, LV8023 and LV8024 were completed for 118.50 metres. The assay results are pending.

The drilling to date continues to demonstrate that high-grade mineralisation extends to the south of current mining activities. This provides additional confidence for the ongoing underground mining activities in the sub-levels of 975L, 900L and down to 875L.



**Figure 4:** Plan view of holes LV8023 and LV8024 showing location of the mineralisation intersected in LV8023. Neighbouring holes have been simplified for clarity.

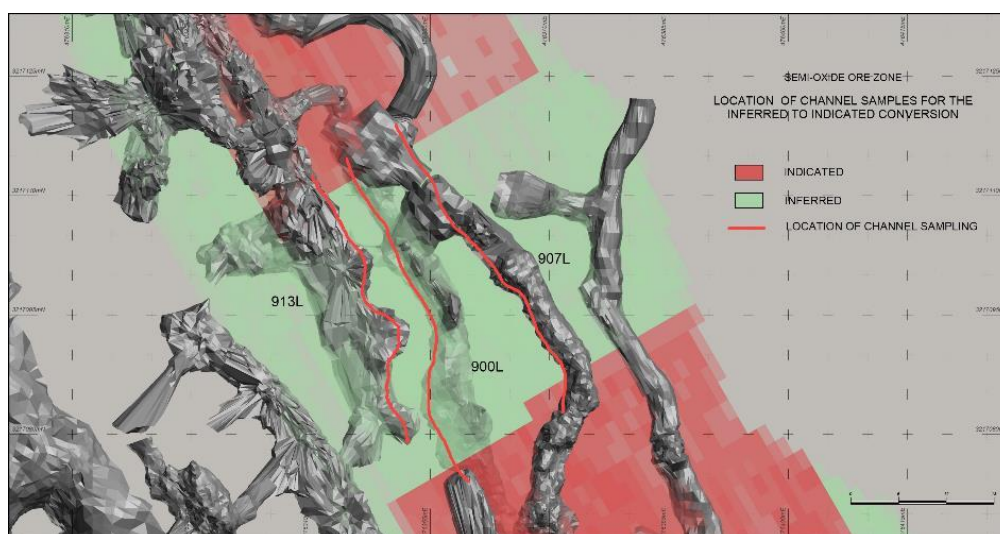


**Figure 5:** Sectional view of the plan in Figure 1, showing the mineralisation in LV8023 and the pinching of the ore zone at LV8024.

## Resource Sampling

As mining has progressed, some older drives have been uncovered, allowing access to mineralised exposures, hence removing the need to drill areas required for category upgrade.

Three levels allowed access to the central zone of the orebody, 913L, 907L and the 900L, which were used to channel sample the ore zone, as shown in figure 6. A total of 114 samples were collected and submitted for assays. Assay results are pending.



**Figure 6:** Sampling locations as defined by red lines traced along the sidewall of Levels 913L, 900L, and 907L. The inferred envelope is shown as green and Indicated as red

## REGIONAL EXPLORATION

Also during the December quarter, preliminary work was completed to investigate areas of interest from previous work, historic mining or areas that show anomalism through interpretation of images and data. This data includes the airborne geophysics, radiometrics, ASTER images and gravity survey, completed in 2017.

### Results of Reconnaissance Gold Exploration

A reconnaissance program was made during the quarter to test areas of interest with the results of the sampling received after quarter end shown in Table 2. Three areas of interest were outlined, Chona/Enrique veins, Potrero and Don Lucas Anomaly. Refer to the ASX announcement dated 30 January 2020 for full details of results.

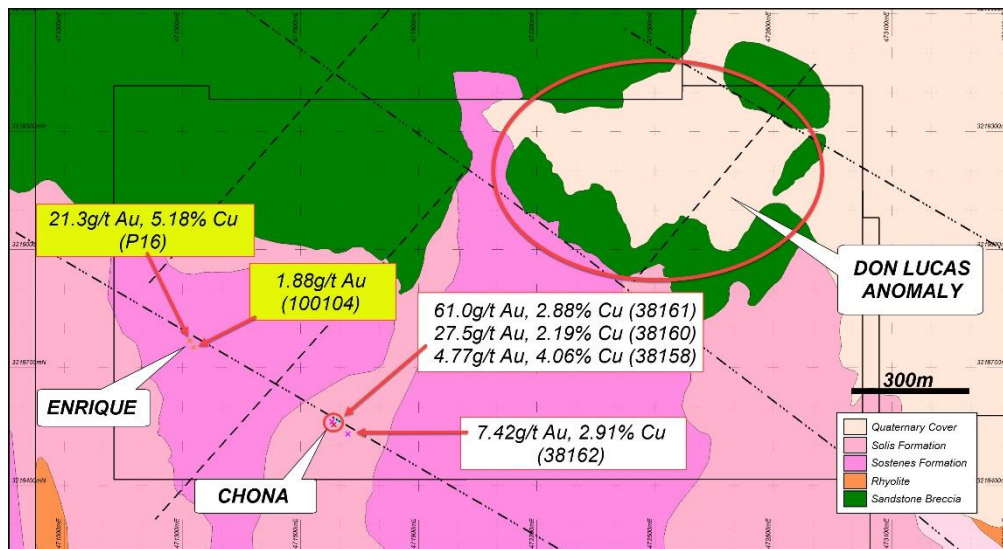
**TABLE 1. HIGHLIGHTS OF ANOMALOUS GOLD AND COPPER ROCK CHIP SAMPLING**

PROJECT	Sample No	Sample type	Rock type	Au g/t	Cu %	Ag g/t	Zn %	Pb %
Chona - Enrique	38158	Selected	Vein	4.77	4.06	3.80	0.00	0.00
La Chona	38160	Selected	Vein	27.50	2.19	4.10	0.00	0.00
La Chona	38161	Selected	Vein	61.00	2.88	6.90	0.00	0.00
La Chona	38162	1m Channel	Limestone	7.42	2.91	4.20	0.00	0.00
Potrero	38175	Grab Sample	Breccia	2.55	0.00	0.03	0.00	0.00

### Chona/Enrique Gold Veins

Located approximately 5km to the west-northwest of Plomosas mine and inside the Don Lucas concession, the Chona and Enrique veins are interpreted to be mesothermal in origin. Veins in the Chona area are typically around 20-30cm in width with a visual strike extent of around 100 metres with a dip and dip direction of 45 degrees at 55 degrees. Veins are granular, containing quartz, carbonate and haematite as gangue to malachite at around 3%.

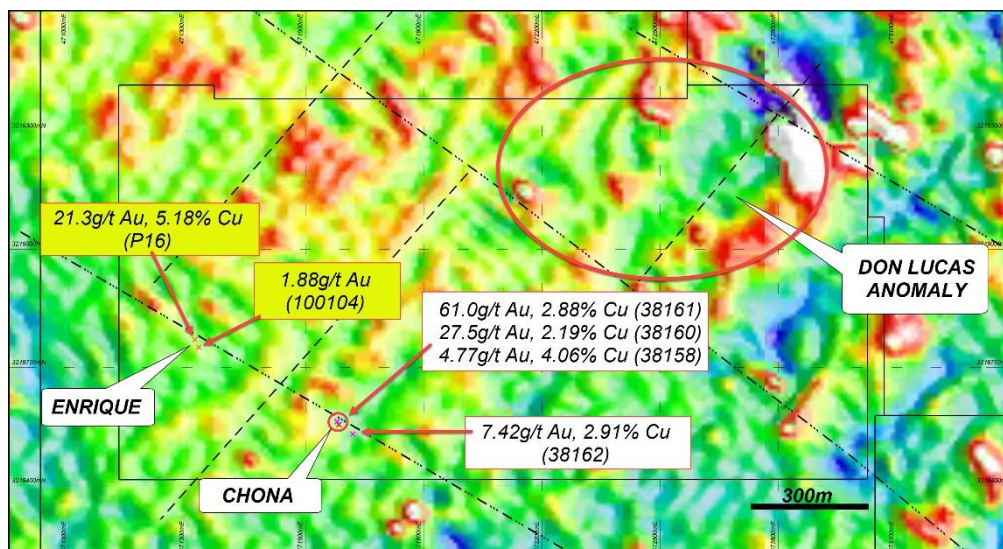




**Figure 7:** Location and results from the Chona sampling on geology with structural lineaments. Note the structural trend between Chona and Enrique, with a distance of approximately 420m. Assay values highlighted in yellow are historic results.

#### Don Lucas Anomaly

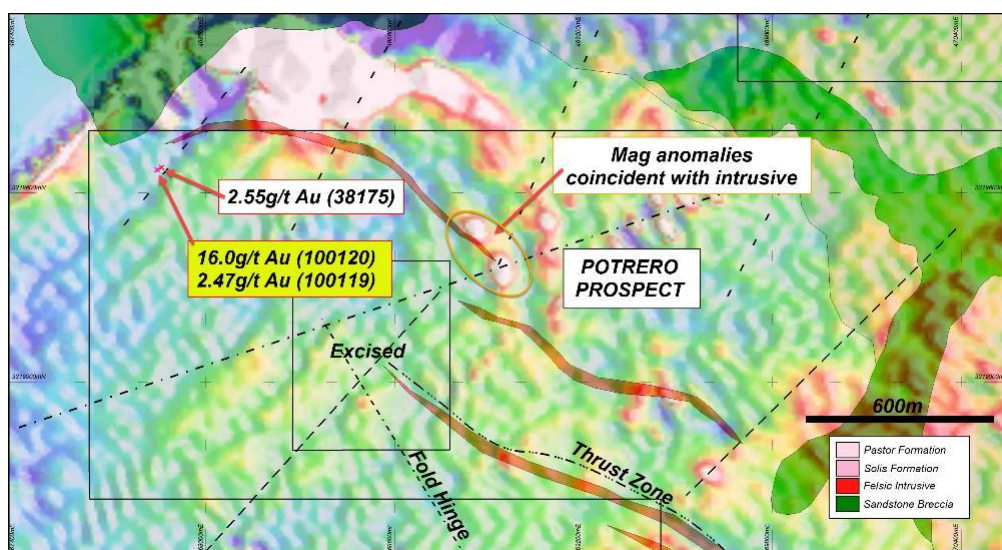
Large coincident ASTER and K-radiometric anomaly, coupled with magnetic signatures, particularly one magnetic high located at 472843.8mE; 3219259.7mE, in the north-eastern corner of the concession. This magnetic high complement the K-radiometric high, which appears to be an alteration zone response to the magnetics.



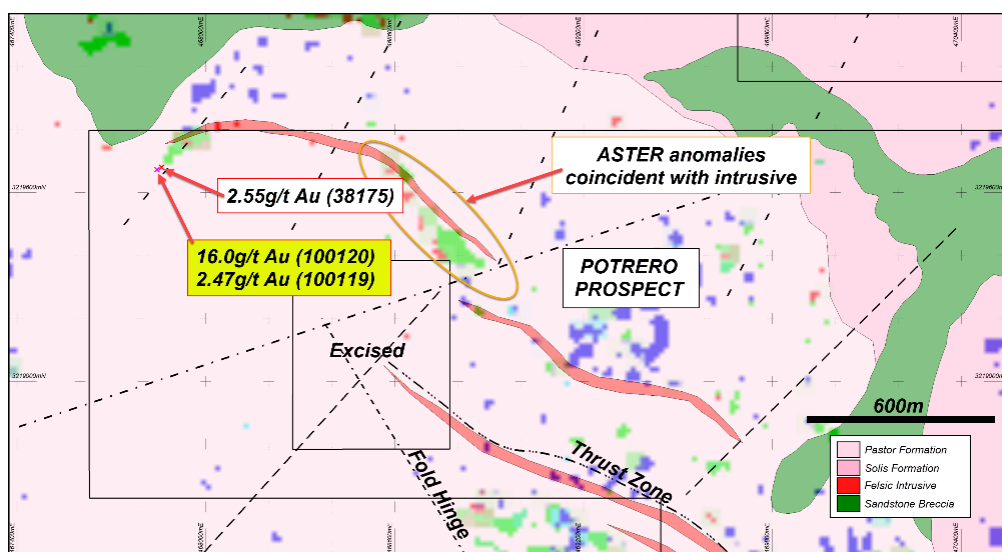
**Figure 8:** VD1 Aeromagnetic over the Don Lucas Concession area. Note north-westerly structures that host the Chona and Enrique Veins. Samples highlighted in yellow are historic samples.

#### Potrero Project

This project is located in the north-western corner of Don Sebastian Concession and has had previous mining activities from small adits, accessing mineralised breccia associated with a large felsic intrusive. Potrero geology is complex, comprising thrusts zones and kilometre scale folding. Late stage faulting is also noted, displacing layered sequences.



**Figure 9:** Potrero Prospect geology over 1VD magnetics highlighting the magnetic low along the eastern edge of the intrusive and the magnetic highs to the south. The lower magnetic signature is coincident with the K-high as shown in the following figure. Samples highlighted in yellow are historic samples.



**Figure 10:** Potrero Prospect geology of ASTER imagery highlighting the clay anomaly coincident with the felsic intrusive and the K-High as shown in the previous figure. ASTER clay anomalism showing possible alteration clays along the felsic intrusive. These are defining the presence of possibly alteration style kaolinite/alunite and illite group of clay materials. Samples highlighted in yellow are historic samples.

MLAZ has only taken one sample from this area which returned a grade of 2.55g/t Au (sample 38175) as announced in the ASX release dated 30 January 2020, however the sample was from the same mullock pile as the historic sampling. Additional work is warranted to follow up on high grade areas.

## DIRECTORS' REPORT

The directors present the financial report of Consolidated Zinc Limited (the "Company") and controlled entities (the "Group") for the year ended 31 December 2019 (the "reporting period").

### DIRECTORS

**Stephen Copulos** – Non-Executive Chairman (resigned 31 December 2019)

**Andrew Richards** – Executive Director, Non-Executive Chairman from 1 January 2020

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

**Angela Pankhurst** – Non-Executive Director

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

### COMPANY SECRETARY

**Mr Anthony Italiano**

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.

### INFORMATION ABOUT THE DIRECTORS

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

**Brad Marwood**, *Managing Director (appointed 4 February 2019)*

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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) and Rapu Rapu (Philippines); completing development of the Svartliden gold mine (Sweden) 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 also held directorship with the following listed company in the 3 years immediately prior to the date of this report.

Name	Date Appointed	Date Resigned
Middle Island Resources Limited	December 2019	Current



## DIRECTORS' REPORT

### Andrew Richards, *Non-executive Chairman*

Mr Richards is a geologist with more than 30 years of 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, SEG and the AICD.

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
Big River Gold Limited	February 2019	Current

### Angela Pankhurst, *Non-executive Director*

Ms Pankhurst is originally a Chartered Accountant undertaking audit and CFO roles, who 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





## DIRECTORS' REPORT

**Stephen Copulos**, *Non-executive Chairman (resigned 31 December 2019)*

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
Big River Gold Limited - former	March 2013	April 2018
Big River Gold Limited - current	February 2019	December 2019
Black Rock Mining Ltd	January 2015	November 2018
Restaurant Brands Ltd	April 2016	April 2019

## 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.

## OPERATIONS REVIEW

For details of operations please see the Review of Operations pages 7 to 13 of this Annual Report.

## FINANCIAL REVIEW

On 1 January 2019 CZL changed its functional and presentation currencies to United States Dollars, as this is the currency that its revenue and a majority of its costs are denominated in.

### Profit and Loss

The Group recorded a loss after tax attributable to the owners of the Company for the year ended 31 December 2019 of \$1.156 million (six months to 31 December 2018: loss of \$0.876 million), representing loss per share of 0.087 cents (six months to 31 December 2018: loss of 0.091 cents). The loss was primarily due to high operating costs in the second half of 2019 for the Plomosas mine, including termination of the mining contractor and transition to owner-operated mining.

### Balance Sheet

Total current assets increased by \$1.148 million, mainly through increases in cash of \$0.345 million, trade and other receivables of \$0.427 million and an increase in inventory of \$0.375 million.

Total non-current assets increased by \$0.496 million, primarily due to capitalisation of mine properties expenditure of \$0.362 million, an increase in property, plant and equipment of \$0.266 million and recognition of right to use assets of \$0.028 million on adoption of *AASB16 Leases*. This was offset by a reduction in non-current receivables of \$0.160 million.

Total liabilities decreased by \$0.780 million to \$4.372 million primarily due to a net decrease in borrowings of \$0.878 million to \$1.258 million, and a decrease in derivative liabilities of \$1.464 million to \$0.126 million. This was offset by an increase in trade and other payables of \$1.531 million and a lease liability of \$0.031 million.

Total equity interests attributable to the Company's shareholders increased by \$1.593 million to \$0.720 million, primarily through a capital raising and conversion of convertible notes to equity.

### Cashflow

As at 31 December 2019, the Group held cash on hand and deposit of \$0.530 million (31 December 2018: \$0.185 million).



## DIRECTORS' REPORT

Net cash outflows from operations and investing activities were \$1.009 million and \$0.645 million respectively. Financing activities raised \$1.999 million, comprising net proceeds from capital raising and borrowings of \$2.281 million and \$0.210 million, respectively, partly offset by the repayment of a short-term loan and associated interest of \$0.331 million and capital raising expenses of \$0.161 million.

### Financing

#### Debt and Equity

During the year, convertible note holders converted A\$1.683 million of principal plus A\$0.164 million of interest into 183,252,496 fully paid ordinary shares. These convertible notes related to funding provided in 2018 for general working capital and to fund the commencement of the Plomosas mine.

At 31 December 2019, the principal face value of convertible notes outstanding was A\$1.053 million plus capitalised interest of A\$0.160 million. All convertible notes are issued in Australian Dollars.

In June 2019, a \$0.209 million (A\$0.300 million) unsecured loan from an entity related to Mr Copulos was drawn at a 10% interest rate. These funds were used to assist the third-party toll processor with plant upgrades necessary to improve profitability of operations in Mexico. The unsecured non-related party loan was fully repaid by June 2019 in accordance with the repayment terms.

The maturity dates of all unsecured related party loans were extended to 30 June 2021 subsequent to balance date.

In September 2019 a total of \$0.687 million (A\$1.000 million) was raised through the placement of 90,909,091 shares at A\$0.011 per share.

The Company completed a fully underwritten rights issue by the issue of 1 new share for every 6 existing shares held at an issue price of A\$0.011 per share in October 2019. The rights issue raised \$1.677 million (A\$2.481 million) through the issue of 225,557,032 shares.

### Change in accounting policy

The group has adopted AASB 16 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.

## 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 the exploration and production of zinc and lead concentrates from Plomosas 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 primary income generating asset is the Plomosas Project, the Group is therefore at risk that adverse performance of the project resulting from internal or external factors may impact future returns.

#### Underground mining and operations risk

The Company conducts mining operations at the Plomosas underground mine in the northern Mexican state of Chihuahua. The Company commenced mining in September 2018 and mines ore featuring zinc, lead and silver.

Underground mining is by its nature a high risk undertaking where operations can be affected by a number of factors. These include, but are not limited to, unanticipated technical and operational difficulties encountered in extraction and production activities, mechanical failure of operating plant and equipment, unexpected shortages or increases in the price of consumables and inputs (including diesel), spare parts and plant and

equipment, labour disputes, industrial accidents including fire, flood and collapse, unusual or unexpected geological formations or hydrogeological conditions including flooding.

*Ore treatment risk*

As announced on 1 April 2019, the Company entered into a toll treatment agreement with the operator of the Aldama concentrator facility, located approximately 70 kilometres from the Plomosas mine. The term of the agreement is 18 months with a 6-month extension at the Company's election.

The effective treatment of the ore is reliant on the third-party operator and the concentrator facility's ability to process ore effectively. Ore treatment is by its nature a high risk undertaking where operations can be affected by a number of factors. These include, but are not limited to, unanticipated technical and operational difficulties, mechanical failure of operating plant and equipment, unexpected shortages or increases in the price of consumables and inputs (including reagents and power), spare parts and plant and equipment, labour disputes, and industrial accidents.

*Commodity price and volatility risk*

Zinc, lead and silver (in concentrates) are produced from the Plomosas mine. The success of the operations at the Plomosas mine is reliant on the prices of these commodities.

Commodity prices (including zinc, lead and silver) fluctuate and are affected by numerous factors beyond the control of the Company. These factors include worldwide and regional supply and demand for commodities, forward selling by producers and production cost levels, general world economic conditions and the outlook for interest rates, inflation and other economic factors on both a regional and global basis. These factors may have a positive or negative effect on the Company's activities, together with the ability to fund these activities.

*Sale of product risk*

The concentrate products produced by the Company after mining and processing are zinc and lead concentrates. The Company has an offtake agreement for 100% of its zinc concentrate, with Industrias Penoles S.A. de C.V. (Penoles) one of the world's leading zinc refiners. The offtake agreement is to 31 December 2020 with options, at Penoles election, to be extended for a further 2 years. Lead concentrate is sold to global commodity trading houses at spot volumes on short term contracts.

Treatment charges apply to zinc and lead concentrates. The Plomosas zinc concentrate treatment charges are linked to the international benchmark, which is reset annually in approximately April of each year. It is currently expected the zinc treatment charge will increase for 2020, however, the quantum of increase is not yet known. The lead treatment charge is negotiated on a spot volume basis and is subject to prevailing market conditions at the time of agreeing a spot sale.

*Resource and Reserve estimates*

The Plomosas Project features Mineral Resources. Mineral Resource and Ore Reserve estimates are expressions of judgment based on knowledge, experience and resource modelling. As such, resource and reserve estimates are inherently imprecise and rely to some extent on interpretations made.

Additionally, resource and reserve estimates may change over time as new information becomes available. If the Company encounters mineralisation or geological formations different from those predicted by past drilling, sampling and interpretations, resource estimates may need to be altered in a way that could adversely affect the Company's operations.

*Exploration risk*

The Company will undertake further exploration at its Plomosas Project. Exploration is by its nature a high risk undertaking and is affected by a range of factors including geological conditions, limitations on activities due to seasonal weather patterns, unanticipated operational and technical difficulties, land access, changing government regulations and other factors beyond the Company's control.

There can be no assurance of success from any exploration activities.



Title risk and licence conditions

The Plomosas Project covers 11 mining leases in the northern Mexican state of Chihuahua.

The Company's activities are dependent upon the maintenance of these concessions and any regulatory consents. The concessions are subject to renewal.

Additionally, the concessions are subject to a number of legislative conditions. The inability to meet these conditions could affect the standing of the concessions or restrict their ability to be renewed.

Loss of any concessions or licences may severely adversely affect the Company.

Land access

The Plomosas Project covers 11 leases in the northern Mexican state of Chihuahua.

The Company has a land use agreement with a local rancher to enable appropriate land access for exploration and mining. The Company needs a valid and effective land use agreement in place to ensure appropriate access.

Environmental

The Plomosas Project is subject to laws and regulations regarding environmental matters. The authorities that administer and enforce environmental laws and regulations determine these requirements. As with all mining and exploration projects, the Company's activities are expected to have an impact on the environment. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with applicable laws.

Failure to obtain or maintain relevant environmental approvals will prevent the Company from undertaking its activities.

Foreign exchange risk

The Company's main business undertaking (the Plomosas mine) is in Mexico and as a result, any revenues, cash inflows, expenses, capital expenditure and commitments may occur in United States dollars or Mexican pesos.

The Company may be exposed to the fluctuations and volatility of these currencies together with the Australian dollar.

Sovereign risk

The Plomosas is located in the northern Mexican state of Chihuahua. Mexico is a federal presidential democratic republic.

The political conditions in Mexico are generally stable, however, changes may occur in the political, fiscal and legal systems which may affect the ownership or operations of the Company including changes in exchange rates, control or fiscal regulations, regulatory regimes, political insurrection or labour unrest, inflation or economic recession.

Union disputes, blockages and unrest

Union disputes, blockages and unrest may occur in Mexico and restrict the ability of the Company to conduct its mining operations and the transport, processing and sale of its concentrate from the Plomosas mine.

Significant movements in a combination of these elements, could have a material adverse effect on operating costs 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 \$1.267 million. Included in the working capital deficiency are current liabilities of \$4.372 million, which include convertible notes and borrowings and associated accrued interest payable, more fully described in Note 13.

In relation to the working capital deficiency as at the balance date:

- On the 9<sup>th</sup> March 2020, the Company announced a fully underwritten non-renounceable pro rata entitlement offer ("Offer") on the basis of one (1) new fully paid ordinary share ("New Share") for every five (5) Shares held on the record date at an issue price of A\$0.005 per Share to raise A\$1.7 million (before costs), together with one free attaching option exercisable at A\$0.01 on or before the date that is three years from the date of issue ("New Option") for each New Share subscribed for and allotted ("Offer").
- The Company has subsequently restructured the Offer due to the impacts of COVID-19 to an offer intended to be fully underwritten non-renounceable pro rata entitlement offer ("Offer") on the basis of one (1) new fully paid ordinary share ("New Share") for every three (3) Shares held on the record date at an issue price of A\$0.003 per Share to raise A\$1.7 million (before costs), together with one free attaching option exercisable at A\$0.006 on or before the date that is three years from the date of issue ("New Option") for each New Share subscribed for and allotted ("Offer"). The amended timetable has a record date of 9 April 2020 and closing date of 1 May 2020.
- In relation to current creditors:
  - Current creditors includes US\$1,254,040 (based on Peso to USD exchange rate at balance date) in relation to a disputed claim by Caminos y Construcciones Ganti S.A. de C.V. (Ganti), the mining contractor at the Plomosas Project who was terminated in 2019. Ganti has chosen to press its claim by taking legal action rather than using the arbitration provision of the contract. The Company has counter claims which exceed the claimed amount. The Mexican Courts are currently suspended and even under normal operating conditions any outcome would be expected to take more than 12 months.
  - On 26 February 2020, the holder of the convertible notes maturing in June 2020 totalling a principal balance of A\$0.424 million plus accrued interest of A\$0.076 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 26 February 2020 are A\$0.628 million and held primarily by related parties who have continued to express their support for the company;
  - The maturity date of the unsecured loans with a principal balance of A\$0.800 million from entities related to Mr Stephen Copulos and Mr Andrew Richards to 30 June 2021, from 30 June 2020. All other terms of the unsecured loans remained the same.
- The cash flow forecasts which the directors have relied upon for the purposes of the going concern assumption:
  - makes certain assumptions regarding zinc price (\$1,800/tonne), lead price (\$1.650/tonne), production volumes and operating costs which reflect current market conditions and indicate surplus cashflow can be generated by mining. The assumptions utilised in the cashflow forecast are an improvement from 2019, reflecting reduced operating costs achieved from the transition to owner-operated mining from contract mining and the benefit of cost reductions implemented and positive movements in the Mexican Peso foreign exchange rates to reduce United States dollar denominated operating costs.
  - has been prepared having regard to the agreement of the Directors and Executives to take substantial salary reductions whilst the COVID-19 pandemic continues to significantly impact



## DIRECTORS' REPORT

operations and commodity prices, and also their agreement to consider reducing cash payments further by accepting equity, subject to shareholder approval, if conditions deteriorate further.

- has not included Australian government measures, announced 30 March 2020, to encourage business continuity during the COVID-19 pandemic period of uncertainty which the Board expects will provide some additional cashflow support for Australian based expenditure.
- includes a variation where operations are ceased in Mexico for a 3-week period due to government action in relation to COVID-19 despite there being no Mexican Government announcements which would indicate this will occur.

In these circumstances, the ability of the consolidated entity to continue as a going concern is primarily dependent upon:

- the fully underwritten non-renounceable pro rata entitlement offer ("Offer") on the basis of one (1) New Share for every three (3) Shares held on the record date at an issue price of A\$0.003 per Share to raise A\$1.7 million (before costs), together with one free attaching New Option exercisable at A\$0.006 on or before the date that is three years from the date of issue for each New Share subscribed for and allotted being completed; and
- there being no significant adverse impact upon mining operations in Mexico as a consequence of the COVID-19 pandemic.

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 forecasts achieved, there is a material uncertainty that may cast significant doubt as to whether the Company will continue as a going concern and, therefore, whether it will be able to realise its assets, in particular its mine development assets (\$1,472,767) and a significant proportion of its property, plant & equipment (\$416,273) and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

## 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.

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 4 February 2019 Chief Executive Officer, Brad Marwood was appointed Managing Director;
- 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;



## DIRECTORS' REPORT

- 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.
- 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\$0.164 million exercised their option to convert early into fully paid ordinary shares at 1.0 cent per share;
- On 4 September 2019, the Company and Retec Guarú 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;
- In September 2019, the company completed a placement of 90,909,091 shares at 1.1 cents to raise A\$1.000 million.
- In October 2019, the company completed a fully underwritten 1 for 6 rights issue at 1.1 cents per share to raise A\$2.481 million.
- On 25 November MLAZ terminated its mining contractor and moved to owner operator mining; and
- On 31 December 2019, Stephen Copulos resigned as a non-executive Chairman and was replaced by Andrew Richards.

## EVENTS AFTER THE REPORTING DATE

Other than set out below, no matters or circumstances have arisen since end of the year, 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 13 January 2020, the Company announced Caminos y Construcciones Ganti S.A. de C.V. (Ganti) submitted legal proceedings in the Federal District Court of Mexico claiming final costs outstanding of Mexican Peso 23,632,639 (inclusive of 16% VAT) or approximately US\$1,254,040 (as at 31 December 2019 exchange rate of 18.8452 Peso to 1 USD) which has been recorded as an accrual in full at 31 December 2019. This action is being defended as MLAZ's audits and reviews have identified an amount substantially lower sum than claimed by Ganti. The Company previously announced on 3 December 2019 its decision to terminate the mining contract with Ganti, a result of an annual review of the contractor's performance and productivity, and a review of their progress claims which identified significant overcharging and their underperformance at the Plomosas mine.
- On 29 January 2020, the Company announced a regional gold exploration program of first pass rock chip results of outcrops and old workings returned exciting results with grades up to 61.0g/t Au, 27.5g/t Au and 7.42g/t Au. The rock chip results, indicate identification of a potential gold system over an area of at least one kilometre (1km) within the Plomosas concessions. This will be followed up with an aggressive exploration program to define targets. Mapping and sampling are currently ongoing, and results will be made announced as received. Refer to the ASX announcement dated 30 January 2020 for full details.
- On 26 February 2020, the holder of the convertible notes maturing in June 2020 totalling a principal balance of A\$0.424 million plus accrued interest of A\$0.076 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 26 February 2020 are A\$0.628 million;
- On 2 March 2020, the Company announced it has entered into unsecured loan facilities with the Company's major shareholders, the Copulos and Retzos Groups. The unsecured loan facilities are for a total of A\$400,000 at an interest rate of 10.0% per annum, repayable by 30 June 2021. The loan facilities will be



## DIRECTORS' REPORT

used for general working capital during the current period of depressed zinc prices. Should the loan facilities not be repaid within 2 months of drawdown, at the option of the lenders and subject to any regulatory and shareholder approvals required, the loan facilities may convert into equity at the lower of A\$0.007 per share or the next capital raising price.

- On 9 March 2020, the company announced a fully underwritten 1 for 5 rights issue at A\$0.005 per share to raise A\$1.725 million (before costs) with a free attaching option for each new share subscribed for at an exercise price of A\$0.01 per share and a 3 year term from the date of issue.
- On 9 March 2020, the company announced it has extended the maturity date of the unsecured loans with a principal balance of A\$0.800 million from entities related to Mr Stephen Copulos and Mr Andrew Richards to 30 June 2021, from 30 June 2020. All other terms of the unsecured loans remained the same.
- Since March, the Company has been following Australian and Mexican Government guidelines for the COVID-19 global pandemic and has updated staff and contractors regularly as the situation evolved. At the time of this report no staff or contractors of the Group have tested positive for the virus (SARS-CoV-2) nor have there been any suspected cases. The Company has limited all non-essential travel and is complying with social distancing practices to limit employee and contractor contact. The company has issued policies and procedures to identify any staff who may be at risk from COVID-19 and identify/isolate any suspected cases of COVID-19 pending full medical review. At the date of this report, the Plomosas operations continue to operate unaffected by the COVID-19 pandemic.

### INFORMATION ON DIRECTORS

The Table below sets out each Director's relevant interest in shares, performance rights and 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
Andrew Richards	13,885,011	-	-	-	-	-	-
- Unlisted Options	-	2,500,000	2,500,000	-	5 June 2020	\$0.06	-
- Performance Rights	-	-	-	-	-	-	20,750,000
Brad Marwood	3,558,851	-	-	-	-	-	-
- Unlisted Options <sup>1</sup>	-	3,000,000	-	1,000,000	30 June 2025	\$0.06	-
- Performance Rights	-	-	-	-	-	-	53,000,000
Angela Pankhurst	408,334	-	-	-	-	-	-
- Unlisted Options	-	-	-	-	-	-	-
- Performance Rights	-	-	-	-	-	-	-

<sup>1</sup> Two million options issued to Brad Marwood expired during the year ended 31 December 2019.





## DIRECTORS' REPORT

### MEETINGS OF DIRECTORS

During the reporting period, 13 formal meetings of Directors (including committees of directors) were held. Attendances by each Director during the period were as follows:

Directors	Directors' Meetings	
	Eligible to attend	Attended
Stephen Copulos	13	10
Brad Marwood	13	12
Andrew Richards	13	13
Angela Pankhurst	13	13

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.

## DIRECTORS' REPORT

### 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

**DIRECTORS' REPORT****Remuneration Report (Audited)**

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 A\$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:

Directors

Stephen Copulos	Chairman ( <i>Non-Executive, resigned 31 December 2019</i> )
Andrew Richards	Director ( <i>Executive Director, until 31 December 2019</i> ) Chairman ( <i>Non-Executive, appointed 1 January 2020</i> )
Angela Pankhurst	Director ( <i>Non-Executive</i> )
Brad Marwood	Chief Executive Officer ( <i>until 4 February 2019</i> ) Managing Director ( <i>appointed 4 February 2019</i> )

Key Management Personnel

Anthony Italiano	Company Secretary and Chief Financial Officer
Steve Boda	Country Manager ( <i>Minera Latin American Zinc</i> )



## Annual Report 31 December 2019

### DIRECTORS' REPORT

#### Remuneration Report (Audited)

##### Details of Remuneration for the period ended 31 December 2019

The remuneration for each Director and 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			
	USD	USD	USD	USD	%
<b>31 December 2019</b>					
Stephen Copulos*	97,653	-	7,643	105,296	7
Andrew Richards*	87,213	7,229	24,839	119,281	21
Angela Pankhurst	44,370	4,064	456	48,890	1
Brad Marwood*	249,706	14,433	93,976	358,115	26
Anthony Italiano	201,318	3,396	58,032	262,746	22
Steve Boda*	191,625	-	60,060	251,685	24
	871,885	29,122	245,006	1,146,013	
<b>For the six months ended 31 December 2018</b>					
Stephen Copulos*	35,263	-	1,014	36,277	3
Andrew Richards*	92,113	-	1,014	93,127	1
Angela Pankhurst	11,755	1,116	-	12,871	-
Brad Marwood*	110,476	-	14,748	125,224	12
Anthony Italiano	24,825	-	-	24,825	-
Andrew Beigel	16,102	1,224	-	17,326	-
Steve Boda*	105,970	-	-	105,970	-
	396,504	2,340	16,776	415,620	

\* Salary and fees paid or payable to KMPs were fully or in part paid to the following related parties (excluding GST):

- Director fees for Andrew Richards were paid up to 31 January 2019 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 were paid up to 31 January 2019 to Corporate Mining Pte Ltd, a company of which Mr. Marwood is a director.
- Fees for Steve Boda were paid up to 31 January 2019 to Kasy Investments Pty Ltd, a company of which Mr. Boda is a director.



## Annual Report 31 December 2019

### DIRECTORS' REPORT

### Remuneration Report (Audited)

#### Shares held by KMP

Key Management Person	Held at start of year/ on appointment	Granted as compensation	Conversion of debt instrument	Acquired/ conversion of performance rights	Other changes <sup>1</sup>	Held at period/year end
<b>31 December 2019</b>						
Stephen Copulos	291,911,277	-	99,796,333	750,000	93,473,622	485,931,232
Andrew Richards	6,120,000	-	5,641,096	750,000	1,373,915	13,885,011
Angela Pankhurst	-	50,000	-	-	358,334	408,334
Brad Marwood	479,015	-	-	2,250,000	79,834	2,808,849
Anthony Italiano	-	-	-	200,000	802,392	1,002,392
Steve Boda	1,325,000	-	-	500,000	-	1,825,000
	299,835,292	50,000	105,437,429	4,450,000	96,088,097	505,860,818
<b>31 December 2018</b>						
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	-	-	-	-	479,015	479,015
Anthony Italiano	-	-	-	-	-	-
Andrew Beigel	62,500	-	-	-	(62,500) <sup>2</sup>	-
Steve Boda	-	-	-	-	1,325,000	1,325,000
	217,828,321	-	49,362,000	40,903,456	(8,258,845)	299,835,292

<sup>1</sup> Other changes include shares: obtained through rights issues, acquired and disposed on market as well as the shares held on the date of a person ceasing to be a KMP.

<sup>2</sup> Balance on resignation

#### 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
<b>31 December 2019</b>						
Stephen Copulos	11,111,111	-	-	-	11,111,111	11,111,111
Andrew Richards	2,500,000	-	-	-	2,500,000	2,500,000
Angela Pankhurst	-	-	-	-	-	-
Brad Marwood	3,000,000	-	(2,000,000)	-	1,000,000	-
Anthony Italiano	-	-	-	-	-	-
Steve Boda	1,250,000	1,250,000	-	-	2,500,000	1,250,000
	17,861,111	1,250,000	(2,000,000)	-	17,111,111	14,861,111
<b>31 December 2018</b>						
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

No options were exercised during the twelve months ended 31 December 2019.



## Annual Report 31 December 2019

### DIRECTORS' REPORT

### Remuneration Report (Audited)

#### Performance Rights held by KMP

Key Management Person	Held at start of period/year	Granted as compensation	Exercised	Lapsed or expired	Held at the end of period/year	Vested and exercisable at the end of period/year
<b>31 December 2019</b>						
Stephen Copulos	4,250,000	-	(750,000)	(1,500,000)	2,000,000	-
Andrew Richards	4,250,000	18,750,000	(750,000)	(1,500,000)	20,750,000	-
Angela Pankhurst	-	-	-	-	-	-
Brad Marwood	3,000,000	54,000,000	(2,250,000)	(1,000,000)	53,750,000	750,000
Anthony Italiano	-	28,950,000	(200,000)	(1,000,000)	27,750,000	750,000
Steve Boda	750,000	29,000,000	(500,000)	(1,500,000)	27,750,000	750,000
	12,250,000	130,700,000	(4,450,000)	(6,500,000)	132,000,000	2,250,000
<b>31 December 2018</b>						
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	750,000	-	-	-	750,000	-
	6,750,000	5,500,000	-	-	12,250,000	-

#### Share-based remuneration

##### Shares

A total of 50,000 ordinary shares were granted as compensation to Ms Angela Pankhurst for nil consideration as a component of the incentive portion of her remuneration. The share price at the grant date was A\$0.013 per share resulting in a share based payment expense of \$456.

##### Options

A total of 1,250,000 options were issued to Mr Steve Boda as a component of the incentive portion of his remuneration in order to retain his services and to provide an incentive linked to the performance of the Company.

The fair value of the options granted during the year ended 31 December 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 to Mr Steve Boda is \$1,578, of which \$1,301 was expensed during the year ended 31 December 2019.



## DIRECTORS' REPORT

### Remuneration Report (Audited)

#### Performance Rights

A total of 130,700,000 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 following classes of performance rights were granted to directors and KMPs:

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) $\geq 1.75\text{mT}$ 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-Jun-20	1.90	1.90
Class F	JORC: (3) 2.5Mt or 400kt Zn+Pb contained	1,500,000	8-Jan-19	30-Dec-20	1.90	1.90
Class G	Mine production: (1) $\geq 3,000$ tpm	700,000	8-Jan-19	30-Dec-19	1.90	1.90
Class H	Mine production: (2) $\geq 8,000$ tpm	1,500,000	8-Jan-19	30-Dec-20	1.90	1.90
Class I	Mine production: (3) $\geq 16,000$ tpm	1,500,000	8-Jan-19	30-Dec-20	1.90	1.90
Class J	Mine Operations: (1) Maintain C3 costs below US\$0.50/lb Zn for 3 months before end 2019	750,000	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)	750,000	8-Jan-19	30-Dec-19	1.90	1.90
Class L	Site Safety: (3a) LTI Trending down to end 2019	750,000	8-Jan-19	30-Dec-19	1.90	1.90
Class M	Site Safety: (3b) Zero death on site to end 2019	750,000	8-Jan-19	30-Dec-19	1.90	1.90
Class N	Site Safety: (3c) LTI free 50,000h, Contractors included	750,000	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
<b>Total granted</b>		<b>130,700,000</b>				

**DIRECTORS' REPORT**
**Remuneration Report (Audited)**

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 2019 were as set out in the table above.

The number of each class of performance rights granted to KMPs:

Class	A Richards	B Marwood	S Boda	A Italiano	Total
Class D	-	500,000	500,000	500,000	1,500,000
Class E	-	500,000	500,000	500,000	1,500,000
Class F	-	500,000	500,000	500,000	1,500,000
Class G	-	250,000	250,000	200,000	700,000
Class H	-	500,000	500,000	500,000	1,500,000
Class I	-	500,000	500,000	500,000	1,500,000
Class J	-	250,000	250,000	250,000	750,000
Class K	-	250,000	250,000	250,000	750,000
Class L	-	250,000	250,000	250,000	750,000
Class M	-	250,000	250,000	250,000	750,000
Class N	-	250,000	250,000	250,000	750,000
Class O	11,250,000	30,000,000	15,000,000	15,000,000	71,250,000
Class P	7,500,000	20,000,000	10,000,000	10,000,000	47,500,000
	<b>18,750,000</b>	<b>54,000,000</b>	<b>29,000,000</b>	<b>28,950,000</b>	<b>130,700,000</b>
<b>Fair value (A\$)</b>	<b>57,898</b>	<b>213,993</b>	<b>136,796</b>	<b>136,051</b>	<b>544,738</b>

The performance rights were issued at nil exercise price. During the period, a total of \$195,745 was expensed in respect to these performance rights.

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.

**Shares Issued on Exercise of Compensation Options and Performance Rights**

During the period 4,450,000 performance rights granted to KMPs were exercised and converted to ordinary shares of the Company upon vesting, as set out in the following table:

Class	A Richards	S Copulos	B Marwood	S Boda	A Italiano	Total
Class AA	-	-	1,000,000	-	-	1,000,000
Class BB	-	-	1,000,000	-	-	1,000,000
Class B	500,000	500,000	-	-	-	1,000,000
Class D	-	-	-	250,000	-	250,000
Class G	250,000	250,000	250,000	250,000	200,000	1,200,000
	<b>750,000</b>	<b>750,000</b>	<b>2,250,000</b>	<b>500,000</b>	<b>200,000</b>	<b>4,450,000</b>



## DIRECTORS' REPORT

### Remuneration Report (Audited)

#### Employment contracts of directors and senior executives

The Group has the following service agreements with directors and senior executives:

##### ***Brad Marwood***

Fixed remuneration of US\$270,000, including statutory superannuation.

The service contract is open ended and can be terminated by either party on 6 months written notice.

##### ***Steve Boda***

Fixed remuneration of US\$171,625, including statutory superannuation.

The service contract is open ended and can be terminated by either party on 3 months written notice.

##### ***Anthony Italiano***

Fixed remuneration of US\$197,100, including statutory superannuation.

The service contract is open ended and can be terminated by either party on 3 months written notice.

#### Consolidated entity performance and link to remuneration

There is no director cash remuneration directly linked to performance of the consolidated entity, with options and performance rights based remuneration linked to the 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 2019 Annual General Meeting ("AGM")

The 31 December 2018 Remuneration Report was voted for without any commentary or discussion at the 2019 AGM, on a show of hands with proxy votes for of 297,705,441 and votes against of 5,833,671.

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



## DIRECTORS' REPORT

### 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 (A\$)	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	30 June 2025	\$0.06	1,000,000
19 June 2019	30 June 2020	\$0.06	1,250,000
17 September 2019	30 September 2021	\$0.02	10,000,000
9 October 2019	30 September 2021	\$0.02	10,000,000
<b>Total options over ordinary shares</b>			<b>123,283,882</b>

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

Date of Expiry	Number of performance rights
30 June 2020	3,500,000
30 December 2020	7,500,000
31 December 2021	118,750,000
	<b>129,750,000</b>

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 HLB Mann Judd

There are no officers of the company who are former audit partners of HLB Mann Judd.

### Auditors

HLB Mann Judd (WA Partnership) were appointed as auditors of the Company on 23 July 2019 and continue in office in accordance with section 327 of the Corporations Act 2001. The appointment of HLB Mann Judd (WA Partnership) as auditors of the Company will be ratified at the next Annual General Meeting to be held in May 2020.

## DIRECTORS' REPORT

### 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 81 and forms part of the Directors' report for the year ended 31 December 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

31 March 2020

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 31 December 2019

	Note	Year ended 31-Dec-19 USD	Six months ended 31-Dec-18* USD
Sales revenue	6(a)	7,589,325	483,449
Cost of sales		(8,284,624)	(87,171)
		(695,299)	396,278
Other income		55,269	-
Exploration and evaluation expenses		(179,950)	(257,509)
Administrative expense	6(b)	(424,571)	(365,884)
Personnel expenses	6(b)	(1,285,847)	(416,838)
Impairment		(100,322)	-
Foreign exchange gain/(loss)		348,210	107,799
Fair value of financial instruments through profit or loss	6(c)	1,451,193	(1,023,155)
Interest expense		(461,425)	(88,951)
Finance expense		(42)	(360,738)
<b>Loss from continuing operations before income tax expense</b>		<b>(1,292,784)</b>	<b>(2,008,999)</b>
Income tax expense		-	-
Loss from continuing operations after income tax expense		(1,292,784)	(2,008,999)
<b>Net loss for the year</b>		<b>(1,292,784)</b>	<b>(2,008,999)</b>
<b>Other comprehensive items that may be reclassified to profit or loss, attributable to:</b>			
Equity holders of the parent entity		-	(49,314)
Non-controlling interests		-	(462,237)
<b>Total other comprehensive loss for the year</b>		<b>(1,292,784)</b>	<b>(2,520,550)</b>
<b>Net loss is attributable to:</b>			
Equity holders of the parent entity		(1,155,727)	(876,346)
Non-controlling interests		(137,057)	(1,132,653)
<b>Loss for the year</b>		<b>(1,292,784)</b>	<b>(2,008,999)</b>
<b>Total comprehensive loss is attributable to:</b>			
Equity holders of the parent entity		(1,155,727)	(925,660)
Non-controlling interests		(137,057)	(1,594,890)
<b>Total comprehensive loss for the year</b>		<b>(1,292,784)</b>	<b>(2,520,550)</b>
<b>Loss per share for loss attributable to the ordinary equity holders of the parent entity:</b>			
Basic and diluted loss per share (cents per share)	8(a)	(0.087)	(0.091)

\*Restated as a result of a correction of error (note 23).

The accompanying notes form part of these financial accounts

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	As at 31-Dec-19 USD \$	As at 31-Dec-18* USD \$
<b>Assets</b>			
<i>Current assets</i>			
Cash & cash equivalents	22	529,686	184,826
Trade & other receivables	9	2,131,995	1,704,608
Inventory	10	442,010	66,671
Financial assets		1,101	564
<b>Total current assets</b>		<b>3,104,792</b>	<b>1,956,669</b>
<i>Non-current assets</i>			
Trade & other receivables	9	69,993	230,233
Property, plant & equipment	11(a)	416,273	149,990
Right of use assets	11(b)	28,356	-
Mine and development property	11(c)	1,472,767	1,110,851
<b>Total non-current assets</b>		<b>1,987,389</b>	<b>1,491,074</b>
<b>Total assets</b>		<b>5,092,181</b>	<b>3,447,743</b>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Trade & other payables	12	2,957,818	1,426,765
Borrowings	13	1,258,160	2,136,507
Lease liabilities		30,989	-
Derivative liabilities	13(a)(i)	125,695	1,590,009
<b>Total current liabilities</b>		<b>4,372,662</b>	<b>5,153,281</b>
<b>Total liabilities</b>		<b>4,372,662</b>	<b>5,153,281</b>
<b>Net assets/(liabilities)</b>		<b>719,519</b>	<b>(1,705,538)</b>
<b>Equity</b>			
Issued capital	14(a)	30,931,000	27,522,537
Reserves	15	(7,050,207)	(6,382,175)
Accumulated losses		(23,161,274)	(22,013,833)
<b>Total equity attributable to owners of CZL</b>		<b>719,519</b>	<b>(873,471)</b>
Non-controlling interest		-	(832,067)
<b>Total equity/(deficiency)</b>		<b>719,519</b>	<b>(1,075,538)</b>

\*Restated as a result of a correction of error (note 23).

The accompanying notes form part of these financial accounts



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 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
<b>For the year ended 31 December 2019</b>								
<b>At 31 December 2018*</b>	27,522,537	(22,013,833)	162,104	(1,007,123)	(5,537,156)	(873,471)	(832,067)	(1,705,538)
Change in accounting policy (note 2)	-	(3,215)	-	-	-	(3,215)	-	(3,215)
<b>At 31 December 2018</b>	27,522,537	(22,017,048)	162,104	(1,007,123)	(5,537,156)	(876,686)	(832,067)	(1,708,753)
Loss for the year after income tax from continuing operations	-	(1,155,727)				(1,155,727)	(137,057)	(1,292,784)
<b>Total comprehensive income for the year</b>	-	(1,155,727)	-	-	-	(1,155,727)	(137,057)	(1,292,784)
<b>Transactions with owners in their capacity as owners:</b>								
Transactions with non-controlling interests	-	-	-	-	(969,124)	(969,124)	969,124	-
Issue of shares net of issuance costs	2,091,440	-	-	-	-	2,091,440	-	2,091,440
Conversion of convertible note	1,261,246	-	-	-	-	1,261,246	-	1,261,246
Exercise of performance rights	55,190	-	(55,190)	-	-	-	-	-
Expiry of performance rights	-	11,501	(11,501)	-	-	-	-	-
Share based payments	587	-	367,783	-	-	368,370	-	368,370
	3,408,463	11,501	301,092	-	(969,124)	2,751,932	969,124	3,721,056
<b>At 31 December 2019</b>	30,931,000	(23,161,274)	463,196	(1,007,123)	(6,506,280)	719,519	-	719,519

\*Restated as a result of a correction of error (note 23).

*The accompanying notes form part of these financial accounts*



## Annual Report 31 December 2019

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 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
<b>For the six months ended 31 December 2018</b>								
<b>At 30 June 2018</b>								
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)
<b>At 30 June 2018</b>	<b>24,143,423</b>	<b>(21,840,003)</b>	<b>847,845</b>	<b>(957,809)</b>	<b>-</b>	<b>2,193,456</b>	<b>(2,482,238)</b>	<b>(288,782)</b>
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)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(876,346)</b>	<b>-</b>	<b>(49,314)</b>	<b>-</b>	<b>(925,660)</b>	<b>(1,594,890)</b>	<b>(2,520,550)</b>
<b>Transactions with owners in their capacity as owners:</b>								
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
	<b>3,379,114</b>	<b>702,516</b>	<b>(685,741)</b>	<b>-</b>	<b>(5,537,156)</b>	<b>(2,141,267)</b>	<b>3,245,061</b>	<b>1,103,794</b>
<b>At 31 December 2018*</b>	<b>27,522,537</b>	<b>(22,013,833)</b>	<b>162,104</b>	<b>(1,007,123)</b>	<b>(5,537,156)</b>	<b>(873,471)</b>	<b>(832,067)</b>	<b>(1,705,538)</b>

\*Restated as a result of a correction of error (note 23).

The accompanying notes form part of these financial accounts



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 December 2019

		For the twelve months ended 31-Dec-19 USD	For the six months ended 31-Dec-18 USD
	Note		
<b>Cash flows from operating activities</b>			
Receipts from customers		7,596,571	-
Payments to suppliers and employees		(8,583,679)	(1,390,605)
Payment of interest		(22,099)	-
<b>Net cash inflow/(outflow) from operating activities</b>	21	<b>(1,009,207)</b>	<b>(1,390,605)</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment		(283,120)	(38,460)
Payment for development		(361,838)	(651,150)
Payment for acquisition of equity investments		-	(545,599)
<b>Net cash (outflow) from investing activities</b>		<b>(644,958)</b>	<b>(1,235,209)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		2,281,143	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		(160,576)	(16,966)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>1,999,594</b>	<b>2,572,096</b>
Net increase/(decrease) in cash and cash equivalents		345,429	(53,718)
Foreign currency translation		(569)	(5,512)
Cash and cash equivalents at the beginning of the year		184,826	244,056
<b>Cash and cash equivalents at the end of the year</b>		<b>529,686</b>	<b>184,826</b>

The accompanying notes form part of these financial accounts



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

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 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).

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 31 March 2020 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 United States dollars which is considered to be the Group's 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.

#### *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 and lead concentrates, 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 the 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 accumulated losses 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*

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. Comparative information is therefore presented for the six months ended 31 December 2018 and as at 31 December 2018.

The Company changed its functional and presentation currency from Australian dollars (AUD) to United States Dollars (USD) effective 1 January 2019. Accordingly, the comparatives have been restated in USD.

### *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 \$1.267 million. Included in the working capital deficiency are current liabilities of \$4.372 million, which include convertible notes and borrowings and associated accrued interest payable, more fully described in Note 13.

In relation to the working capital deficiency as at the balance date:

- On the 9<sup>th</sup> March 2020, the Company announced a fully underwritten non-renounceable pro rata entitlement offer ("Offer") on the basis of one (1) new fully paid ordinary share ("New Share") for every five (5) Shares held on the record date at an issue price of A\$0.005 per Share to raise A\$1.7 million (before costs), together with one free attaching option exercisable at A\$0.01 on or before the date that is three years from the date of issue ("New Option") for each New Share subscribed for and allotted ("Offer").
- The Company has subsequently restructured the Offer due to the impacts of COVID-19 to an offer intended to be fully underwritten non-renounceable pro rata entitlement offer ("Offer") on the basis of one (1) new fully paid ordinary share ("New Share") for every three (3) Shares held on the record date at an issue price of A\$0.003 per Share to raise A\$1.7 million (before costs), together with one free attaching option exercisable at A\$0.006 on or before the date that is three years from the date of issue ("New Option") for each New Share subscribed for and allotted ("Offer"). The amended timetable has a record date of 9 April 2020 and closing date of 1 May 2020.
- In relation to current creditors:
  - Current creditors includes US\$1,254,040 (based on Peso to USD exchange rate at balance date) in relation to a disputed claim by Caminos y Construcciones Ganti S.A. de C.V. (Ganti), the mining contractor at the Plomosas Project who was terminated in 2019. Ganti has chosen to press its claim by taking legal action rather than using the arbitration provision of the contract. The Company has counter claims which exceed the claimed amount. The Mexican Courts are currently suspended and even under normal operating conditions any outcome would be expected to take more than 12 months.
  - On 26 February 2020, the holder of the convertible notes maturing in June 2020 totalling a principal balance of A\$0.424 million plus accrued interest of A\$0.076 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 26 February 2020 are A\$0.628 million and held primarily by related parties who have continued to express their support for the company;
  - The maturity date of the unsecured loans with a principal balance of A\$0.800 million from entities related to Mr Stephen Copulos and Mr Andrew Richards to 30 June 2021, from 30 June 2020. All other terms of the unsecured loans remained the same.
- The cash flow forecasts which the directors have relied upon for the purposes of the going concern assumption:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

- makes certain assumptions regarding zinc price (\$1,800/tonne), lead price (\$1.650/tonne), production volumes and operating costs which reflect current market conditions and indicate surplus cashflow can be generated by mining. The assumptions utilised in the cashflow forecast are an improvement from 2019, reflecting reduced operating costs achieved from the transition to owner-operated mining from contract mining and the benefit of cost reductions implemented and positive movements in the Mexican Peso foreign exchange rates to reduce United States dollar denominated operating costs.
- has been prepared having regard to the agreement of the Directors and Executives to take substantial salary reductions whilst the COVID-19 pandemic continues to significantly impact operations and commodity prices, and also their agreement to consider reducing cash payments further by accepting equity, subject to shareholder approval, if conditions deteriorate further.
- has not included Australian government measures, announced 30 March 2020, to encourage business continuity during the COVID-19 pandemic period of uncertainty which the Board expects will provide some additional cashflow support for Australian based expenditure.
- includes a variation where operations are ceased in Mexico for a 3-week period due to government action in relation to COVID-19 despite there being no Mexican Government announcements which would indicate this will occur.

In these circumstances, the ability of the consolidated entity to continue as a going concern is primarily dependent upon:

- the fully underwritten non-renounceable pro rata entitlement offer ("Offer") on the basis of one (1) New Share for every three (3) Shares held on the record date at an issue price of A\$0.003 per Share to raise A\$1.7 million (before costs), together with one free attaching New Option exercisable at A\$0.006 on or before the date that is three years from the date of issue for each New Share subscribed for and allotted being completed; and
- there being no significant adverse impact upon mining operations in Mexico as a consequence of the COVID-19 pandemic.

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 forecasts achieved, there is a material uncertainty that may cast significant doubt as to whether the Company will continue as a going concern and, therefore, whether it will be able to realise its assets, in particular its mine development assets (\$1,472,767) and a significant proportion of its property, plant & equipment (\$416,273) and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

For further information on the risks which may impact the going concern assumptions please read the 'Likely Developments and Expected Results of Operations' in the Directors Report pages 17 to 21.

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 as 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 or 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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	10% - 33%
Office equipment	10% - 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.

#### 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

The Group changed its accounting policy in respect to leases on adoption of AASB 16 (details in note 2).

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an Index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

The Group presents right-of-use assets and lease liabilities as separate line items in the relevant sections of the Statement of Financial Position and additional information is shown in notes to the financial statements.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Lease payments associated with these leases are recognised as an expense on a straight-line basis over 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)***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 shares, 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.

**l) 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.

**m) 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.

**n) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

**o) 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.

**p) 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.

**q) 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.

Compound instruments (convertible notes) issued by the Group are classified as either financial liabilities or equity in accordance with the substance of the arrangements. An option that is converted and that will be settled by the exchange of a fixed amount of cash or another financial asset or a fixed number of the Group's own equity instruments will be classified as equity.

The fair value of the liability component is estimated on the date of issue. This is done by using the prevailing market interest rate of the same kind of instrument. This amount is recognised using the effective interest method as a liability at amortised cost until conversion or the end of the life of the instrument.

The equity portion is calculated by deducting the liability amount from the fair value of the instrument as a whole. The equity portion is not remeasured after initial recognition. Equity will remain as such until the option is exercised. When the option is exercised a corresponding amount will be transferred to share capital. If the option lapses without the option being exercised the balance in equity will be recognised in the profit or loss.

Costs of the transaction of the issue of convertible instruments are proportionally allocated to the equity and liability. Transaction costs in regards to the liability are included in the carrying amount of the liability and are amortised over its life using the effective interest method. Transaction costs in equity is directly recognised in equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Where the fixed for fixed test is failed, the option will be classified as a financial liability. In this case, the derivative liability is separated from its host contract on the basis of the stated terms of the option feature. The initial carrying amount for the host instrument is the residual amount after separating the derivative.

**r) Revenue**

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 zinc and lead concentrates 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).

**s) Borrowing costs**

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

**t) 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.

**u) Dividends**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****v) Earnings per share***Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners the parent, 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.

**w) 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.

**x) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**y) 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.

*Recoverable amount of Mine Properties and Development*

Balances disclosed in the financial statements and notes thereto related to mine properties and development are based on the best estimates of directors. Mine properties and development are recorded at the lower of cost or recoverable amount. During the year, the recoverable amount of mine properties and development was determined based on a value in use calculation using cash flow projections using financial budgets approved by management that include a range of estimate and judgements including commodity price, discount rates, forecast production volumes and operating cost inputs. Refer to note 11(c).

*Environmental Issues*

Balances disclosed in the financial statements and notes thereto comply with environmental legislation, and the directors understanding thereof. At the current stage of the Group's operations, its current environmental impact and the excising of rehabilitation obligation of the tailings dam with the former operators Asarco, the directors believe such treatment and recognition of any environmental rehabilitation costs are 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 17.

**z) 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.

**aa) Foreign Currency Transactions and balances***Functional and presentation currency*

The Company and all entities it controls utilise United States Dollars (USD) as the functional currency.

The consolidated financial statements are presented in USD.

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

**bb) Adoption of New and Revised Standards*****Amendments to AASBs and the new Interpretation that are mandatorily effective for the current period***

In the year ended 31 December 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 2.

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.

**2. 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 2(b) below.

The Group has adopted AASB 16 with a date of initial application of 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 AASB 117 *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.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- applied a single discount rate to a portfolio of leases with similar characteristics
- applied the exemption not to recognise right-of-use asset and liabilities for leases with less than 12 months of lease term
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

***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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. CHANGE IN ACCOUNTING POLICIES (continued)

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

The change in accounting policy affected the following items in the Statement of Financial Position on 1 January 2019:

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

The net impact on accumulated losses on 1 January 2019 was a decrease of \$3,215.

#### (b) The Group's leasing activities and these are accounted for

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.

### 3. SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

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

- On 4 February 2019 Chief Executive Officer, Brad Marwood was appointed Managing Director;
- 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.
- 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 A\$0.01 per share;



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD (continued)

- 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;
- In September 2019, the company completed a placement of 90,909,091 shares at A\$0.011 per share to raise A\$1.000 million.
- In October 2019, the company completed a fully underwritten 1 for 6 rights issue at A\$0.011 per share to raise A\$2.481 million.
- On 25 November MLAZ terminated its mining contractor and moved to owner operator mining; and
- On 31 December 2019, Stephen Copulos resigned as a non-executive Chairman and was replaced by Andrew Richards.

### 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 full year ended 31 December 2019.

### 6. PROFIT AND LOSS INFORMATION

#### (a) Revenue from contracts with customers

##### *Ore sales and tolling agreement*

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 concentrates to the Grupo Mexico Potosi Smelter. The Grupo Mexico was the Group's only customer up to termination of the ore tolling and offtake agreement in May 2019.

Revenue from the sale of zinc and lead concentrates under the ore tolling agreement was recognised when control of the ore passes to the customer, which is generally determined when the ore was delivered to the Santa Eulalia concentrator for beneficiation into concentrates. Revenue is measured at fair value of the consideration received, net of treatment and refining charges and taking into account the contractually defined payment terms.

The Groups sale of concentrates to Grupo Mexico allow for price adjustments based on the market price of the payable metal at the end of the relevant quotational period ("QP"). The period between the provisional invoicing and the end of the QP was one month.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. PROFIT AND LOSS INFORMATION (continued)

*Concentrate sales agreements*

The Company has entered into zinc concentrate sales agreement with Industrias Penoles S.A. de C.V. ("Penoles") for an initial term to 31 December 2020, extended at the election of Penoles, to extend for a further 2 years to 31 December 2022 and declare the volume of zinc concentrate to purchase in 2021 and 2022 calendar years on exercise of its option.

The Company has also entered into spot volume basis sales agreements with Metco Trading S.A. de C.V. ("Metco") for the sale of lead concentrates.

Revenue from the sale of zinc and lead concentrates are recognised when control of the concentrate passes to the customer, which is generally determined when the concentrate has been delivered to the nominated facility of the customer. Revenue is measured at fair value of the consideration received, net of treatment and refining charges and taking into account the contractually defined payment terms.

The Groups sale of zinc and lead concentrates allow for price adjustments based on the market price of the payable metal at the end of the relevant quotational period ("QP"). The period between the provisional invoicing and the end of the QP is one month for zinc concentrates and between one and four months for lead concentrates.

**(b) Expenses**

	Year ended 31-Dec-19 USD	Six months ended 31-Dec-18 USD
<b>Administrative expenses</b>		
Administration	(51,766)	(67,549)
Consultancy and legal expenses	(60,667)	(160,664)
Compliance and regulatory expenses	(142,589)	(35,369)
Communication	(14,594)	(1,326)
Depreciation and amortisation	(31,537)	(156)
Occupancy	(4,218)	(14,318)
Travel and accommodation	(84,134)	(69,833)
Audit fees (i)	(35,066)	(16,669)
	(424,571)	(365,884)

	Year ended 31-Dec-19 USD	Six months ended 31-Dec-18 USD
<b>Personnel expenses</b>		
Directors' fees	(461,891)	(153,706)
Employee expenses	(524,773)	(229,931)
Superannuation expense	(43,424)	(16,426)
Share-based payments	(255,759)	(16,775)
	(1,285,847)	(416,838)
<b>(i) Audit fees</b>		
Audit and assurance services	(35,066)	(16,699)
Other services	-	-
Total Auditors' remuneration	(35,066)	(16,699)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. PROFIT AND LOSS INFORMATION (continued)

## (c) Fair value through profit or loss

	Year ended 31-Dec-19 USD	Six months ended 31-Dec-18* USD
Movement in fair value of derivatives	1,451,080	(1,023,155)
Movement in fair value of equity investments	113	-
	1,451,193	(1,023,155)

\*Restated as a result of a correction of error (note 23).

## 7. INCOME TAX

	Year ended 31-Dec-19 USD	Six months ended 31-Dec-18 USD
<b>Profit/(Loss) before income tax</b>	(1,292,784)	(2,008,999)
Tax benefit at the 30% income tax rate	387,835	602,700
Non-deductible temporary differences	69,226	6,101
Non-deductible permanent differences	(366,895)	(218,996)
Income tax benefit not brought to account	(90,166)	(389,805)
Income tax attributable to operating loss	-	-

Potential deferred tax assets attributable to tax losses and exploration expenditure expensed as incurred, amounts to approximately \$15,342,439 (2018: \$13,745,768) and capital losses of \$887,488 (2019: \$887,871) have not been brought to account at 31 December 2019 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:

- 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;
- 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;
- the Group continues to comply with conditions for deductibility imposed by law; and
- 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 2019.

Consolidated Zinc Limited and its wholly owned subsidiaries Arena Exploration Pty Ltd and LAZ Holdings Pty Ltd implemented the tax consolidation regime from 1 July 2018. Consolidated Zinc Limited is the head entity in the tax consolidated group. On adoption of tax consolidation, the entities in the tax consolidated group did not enter into a tax sharing agreement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. EARNINGS PER SHARE

	Year ended 31-Dec-19	Six months to 31-Dec-18*
a) Basic earnings per share attributable to the ordinary equity holders of the Company (cents per share)	(0.087)	0.091
Basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company (cents per share)	(0.087)	0.091
b) Net loss for the year	(1,155,727)	(876,346)
Loss/profit from continuing operations	(1,155,727)	(876,346)
c) Weighted average number of shares on issue during the financial year used in the calculation of basic earnings per share	1,321,075,737	959,735,168

\*Restated as a result of correction of error (note 23).

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.

## 9. TRADE AND OTHER RECEIVABLE

	31-Dec-19 USD	31-Dec-18 USD
<i>Current</i>		
Trade receivables	701,754	625,439
Other receivable	32,818	14,210
Prepayments	119,435	91,026
Indirect taxes receivable <sup>1</sup>	1,237,887	973,933
Receivable from the Plomosas Project former joint venture partner <sup>2</sup>	40,101	-
	2,131,995	1,704,608
<i>Non-current</i>		
Receivable from the Plomosas Project former joint venture partner <sup>2</sup>	69,993	230,233
	69,993	230,233

<sup>1</sup> 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.

<sup>2</sup> The outstanding receivable from the Plomosas Project former joint venture partner is repayable from 36 equal monthly deductions from the 1% net smelter return royalty held by Retec Guarú S.A. ("Retec"). The current receivable includes the amount receivable within the next 12 months while the remaining balance is classified as non-current receivable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 10. INVENTORY

	31-Dec-19 USD	31-Dec-18 USD
Warehouse inventory – at cost	143,871	66,671
Ore stockpiles – at cost	208,174	-
Zinc and lead concentrates – at net realisable value	89,965	-
	442,010	66,671

## 11. NON-CURRENT ASSETS

a) Property, plant and equipment	31-Dec-19 USD	31-Dec-18 USD
<b>Plant and Equipment</b>		
At cost	498,173	192,356
Accumulated depreciation	(81,900)	(42,366)
	416,273	149,990
<b>Movement in carrying amount</b>		
Balance at the beginning of the year	149,990	104,204
Additions	305,818	45,628
Depreciation expense	(278)	(156)
Depreciation in Cost of Sales	(39,257)	-
Depreciation capitalised to exploration asset	-	(6,434)
Effect of foreign currency translation	-	6,748
Balance at the end of the period/year	416,273	149,990

b) Right of use asset	31-Dec-19 USD
Right of use asset	114,572
Accumulated depreciation	(61,911)
	52,661
<b>Movement in carrying amount</b>	
Carrying value at start of the period	76,967
Additions	-
Depreciation	(48,611)
Carrying value at the end of the period/year	28,356

The right of use asset was recognised on adoption of AASB16 *Leases* and is depreciated over life of leases. Details regarding the recognition of the right to use asset are disclosed in note 2.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 11. NON-CURRENT ASSETS (continued)

c) Mine and development property	31-Dec-19 USD	31-Dec-18 USD
<b>Mine and development property</b>		
At cost	1,903,926	1,110,851
Accumulated depreciation	(431,159)	-
	<b>1,472,767</b>	<b>1,110,851</b>
<b>Movement in carrying amount</b>		
Balance at the beginning of the year	1,110,851	-
Additions	793,075	196,555
Pre-commissioning revenue	-	(129,744)
Pre-commissioning costs	-	1,044,040
Amortisation	(431,159)	-
Balance at the end of the period/year	<b>1,472,767</b>	<b>1,110,851</b>

**Impairment**

The Group has identified an impairment indicator on its Plomosas Zinc-Lead-Silver Project given the loss for the year ending 31 December 2019 and the decline in zinc and lead prices. 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\$1,472,767), 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 12.5%. Based upon the value in use assessment, an impairment charge was not required.

## 12. TRADE AND OTHER PAYABLES

	31-Dec-19 USD	31-Dec-18 USD
Trade creditors (i)	2,359,765	1,100,827
Other payables and accruals	413,733	313,212
Payroll clearing accounts	184,322	12,726
	<b>2,957,820</b>	<b>1,426,765</b>

- (i) Included in trade creditors is the Ganti (former mining contractor) disputed amounts of Mexican Peso 23,632,639 (inclusive of 16% VAT) or approximately US\$1,254,040 (as at 31 December 2019 exchange rate of 18.8452 Peso to 1 USD) which has been recorded as an accrual in full at 31 December 2019. The legal claim and disputed amounts are being defended as MLAZ has identified an amount substantially lower than claimed by Ganti.

## 13. BORROWINGS

	31-Dec-19 USD	31-Dec-18 USD
<b>Short-term borrowings</b>		
Convertible Notes a)	648,613	1,449,634
Loans from related parties b)	609,547	353,598
Short-term loan facility c)	-	333,275
	<b>1,258,160</b>	<b>2,136,507</b>

## 13. BORROWINGS (continued)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## a) Convertible Notes (continued)

a) Convertible Notes	31-Dec-19 USD	31-Dec-18* USD
Convertible notes on issue	536,452	1,362,143
Interest payable on convertible notes	112,161	87,491
	648,613	1,449,634

Reconciliation of movement in convertible notes	31-Dec-19 USD	31-Dec-18 USD
<b>Movement in convertible notes on issue</b>		
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	(1,149,399)	(558,809)
Accreted interest	248,282	-
Effect of foreign currency translation at period end	75,426	-
	536,452	1,362,143
<b>Movement in interest payable on convertible notes on issue</b>		
Balance at the beginning of the year	87,491	11,748
Interest on convertible notes for the period	139,543	85,095
Equity settled interest payable	(111,847)	(9,352)
Effect of foreign currency translation at period end	(3,026)	-
	112,161	87,491
	648,613	1,449,634

\* The Group restated the balance of convertible notes at 31 December 2018 upon correcting a prior year error (note 23) and recognising a derivative liability arising from the option conversion feature of the convertible notes.

There were no issues of convertible notes during the year ended 31 December 2019.

During the period, \$1,149,399 (A\$1,682,526) of convertible notes and \$111,847 (A\$164,191) of associated interest were converted to 183,252,496 ordinary shares.

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.

**Terms of convertible notes on issue**
Convertible Note – Tranche B

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

- Interest rate: 10% per annum
- Maturity date: matured in 2019, extended to 30 June 2020
- Conversion price: 1.0 cent per share

## 13. BORROWINGS (continued)

## a) Convertible Notes (continued)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Convertible Note – Tranche C

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

- Interest rate: 10% per annum
- Maturity date: matured in 2019, extended to 30 June 2020
- Conversion price: 1.0 cent per share

Convertible Note – Tranche E

The Tranche E convertible notes on issue at balance date is A\$152,630. The terms of these convertible notes are as follows:

- Interest rate: 10% per annum
- Maturity date: extended to 30 June 2020 in accordance with the extension terms
- Conversion price: 1.5 cents per share

*(i) Derivative liability*

On 31 December 2018, the Group recognised a derivative liability of \$1,590,009 in respect to its convertible notes. The movement in the derivative liability for the year ended 31 December 2019, was as follows:

	31-Dec-19 USD	31-Dec-18 USD
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))	(1,451,080)	1,023,155
Effect of foreign currency translation at period end	(13,234)	1
Closing balance	125,695	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.

<b>b) Loans from related parties</b>	31-Dec-19 USD	31-Dec-18 USD
Loan principal	560,480	352,630
Interest payable	49,067	968
	609,547	353,598
<b><i>Movement in loans from related parties</i></b>		
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	(1,250)	-
	560,480	352,630
<b><i>Movement in interest on loans from related parties</i></b>		
Balance at the beginning of the year	968	-
Interest for the period	47,544	968
Effect of foreign currency translation at period end	555	-
	49,067	968
	609,547	353,598

## 13. BORROWINGS (continued)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- (i) During the year ended 31 December 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. Subsequent to balance date, the maturity date was further extended to 30 June 2021.

c) Short-term loan facility	31-Dec-19 USD	31-Dec-18 USD
<b>Movement in short-term loan facility</b>		
Balance at the beginning of the year	331,363	-
Reclassified from other payables	-	331,363
Repaid during the period	(331,363)	-
	-	331,363
<b>Movement in interest</b>		
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 year, the Company repaid the outstanding balance and the associated interest on the short-term loan facility to Jetosea Pty Ltd ("Jetosea").

## 14. ISSUED CAPITAL

## a) Share capital

	31-Dec-19 Number of shares	31-Dec-19 USD	31-Dec-18 Number of shares	31-Dec-18 USD
Ordinary shares paid net of costs	1,669,808,313	30,931,000	1,165,339,694	27,522,537

Reconciliation of movement in Issued capital		Issue price (A\$ cents)	Number of shares	USD
<b>Balance at 1 July 2018</b>			<b>924,938,165</b>	<b>24,143,423</b>
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
	Equity settled interest on convertible			
14-Dec-18	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)
<b>Balance at 31 December 2018</b>			<b>1,165,339,694</b>	<b>27,522,537</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 14. ISSUED CAPITAL (continued)

<i>Reconciliation of movement in Issued capital</i>		Issue price (A\$ cents)	Number of shares	USD
<b>Balance at 1 January 2019</b>			<b>1,165,339,694</b>	<b>27,522,536</b>
22-Jan-19	Convertible note conversion	1.20	7,096,333	61,270
22-Jan-19	Exercise of performance rights	1.67	1,500,000	17,614
24-Jan-19	Exercise of performance rights	1.67	2,950,000	34,640
19-Jun-19	Issue of shares	1.67	50,000	588
19-Jun-19	Exercise of performance rights	1.67	250,000	2,936
05-Aug-19	Conversion of Convertible note and interest	1.00	176,156,163	1,199,976
16-Sep-19	Placement shares	1.10	90,909,091	687,410
30-Sep-19	Rights issue	1.10	22,548,953	167,490
16-Oct-19	Rights issue	1.10	190,123,710	1,410,787
13-Nov-19	Rights issue	1.10	1,975,278	14,869
31-Dec-19	Rights issue	1.10	10,909,091	84,072
	Issuance costs		-	(273,188)
<b>Balance at 31 December 2019</b>			<b>1,669,808,313</b>	<b>30,931,000</b>

## b) Options over ordinary shares

	31-Dec-19	31-Dec-19	31-Dec-18	31-Dec-18
<i>Options over ordinary shares</i>	Number of options	Exercise price per option (A\$)	Number of options	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	0.06	-	-
Issued to advisors	20,000,000	0.02	-	-
Expired	(2,000,000)	0.06	(130,172,002)	0.06
Outstanding at the end of the period	<b>123,283,904</b>		<b>104,033,904</b>	
Exercisable at the end of the period	<b>121,033,904</b>		<b>101,033,904</b>	

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 12.67 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)

## 14. ISSUED CAPITAL (continued)

## c) Performance rights

	31-Dec-19	31-Dec-19 Exercise price per PR (\$)	31-Dec-18	31-Dec-18 Exercise price per PR
<i>Performance rights</i>	Number of PRs		Number of PRs	
Outstanding at the beginning of the period	12,000,000		6,500,000	
Granted during the period	132,700,000	-	5,500,000	-
Exercised	(4,200,000)	-	-	-
Expired	(8,500,000)	-	-	-
<b>Outstanding at end of the period</b>	<b>132,000,000</b>		<b>12,000,000</b>	

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 22.73 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.

	31-Dec-19 USD	31-Dec-18 USD
Cash and cash equivalents	529,686	184,826
Financial assets	1,101	564
Inventory	442,010	66,671
Trade and other receivables	2,131,995	1,704,608
Trade and other payables	(2,957,820)	(1,426,765)
Borrowings	(1,258,160)	(2,136,507)
Lease liability	(30,987)	-
Derivatives	(125,695)	(1,590,000)
<b>Working capital position</b>	<b>(1,267,870)</b>	<b>(3,196,612)</b>

## 15. RESERVES

		31-Dec-19 USD	31-Dec-18 USD
Share-based payments reserve	(i)	463,196	162,104
Foreign currency translation reserve	(ii)	(1,007,123)	(1,007,123)
Non-controlling interest reserve	(iii)	(6,506,280)	(5,537,156)
		<b>(7,050,207)</b>	<b>(6,382,175)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**15. RESERVES (continued)**
**(i) Share-based payments reserve**

	31-Dec-19 USD	31-Dec-18 USD
Balance at the beginning of the period	162,104	847,845
Reclassification to share capital for exercised	(75,654)	-
Reclassification to retained earnings for options lapsed or expired	(11,501)	(702,516)
Share-based payment expense	388,247	16,775
Balance at the end of the period	463,196	162,104

The share-based payment expense details are disclosed in Note 17.

**(ii) Foreign currency translation reserve**

	31-Dec-19 USD	31-Dec-18 USD
Balance at the beginning of the period	(1,007,123)	(918,879)
Change in accounting policy reinstatement	-	(38,930)
Movement during the period	-	(49,314)
Balance at the end of the period	(1,007,123)	(1,007,123)

On 1 January 2019, the Group changed its presentation and functional currency to USD. In the previous years, the Group's presentation currency was AUD and the functional currency of the Group's Mexican subsidiary was Mexican Pesos, which resulted in recognition of the foreign currency translation reserve.

**(iii) Non-controlling interest reserve**
***Outside equity reserve***

	31-Dec-19 USD	31-Dec-18 USD
Balance at the beginning of the period	(5,537,156)	-
Acquisition of additional interest in Plomosas	(969,124)	(5,537,156)
Balance at the end of the period	(6,506,280)	(5,537,156)

During the reporting period, the Group recognised negative \$969,125 non-controlling interest reserve, arising from the acquisition of additional 10% interests in MLAZ. This amount represents the difference between the carrying value of the non-controlling interest acquired and the consideration paid, as disclosed in Note 18(b)(i).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. KEY MANAGEMENT PERSONNEL

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, resigned 31 December 2019)
Mr. Andrew Richards	Director (Executive until 31 December when appointed Non-Executive Chairman)
Ms. Angela Pankhurst	Director (Non-Executive)
Mr. Brad Marwood	Managing Director (appointed 4 March 2019)
Mr. Anthony Italiano	Chief Financial Officer and Company Secretary
Mr. Steve Boda	Country Manager - Minera Latin American Zinc

### Salary and fees

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

	31-Dec-19 USD	31-Dec-18 USD
Short terms benefits	871,886	396,504
Share based payments	245,006	16,776
Post-employment benefits	29,122	2,340
	<b>1,146,014</b>	<b>415,620</b>

The following director and executive fees are paid to parties related by those KMPs:

- Director fees for Andrew Richards of \$2,788 were paid to Arc Resources Pty Ltd, a company of which Mr. Richards is a director.
- Director fees of \$97,653 for Stephen Copulos were paid or payable to The Eyeon Investments Family Trust (Eyeon Investment), a company of which Mr. Copulos is a director.
- Executive fees of \$16,414 for Brad Marwood were paid to Corporate Mining Pty Ltd, a company of which Mr. Marwood is a director.
- In the prior year, fees for Steve Boda are paid to Kasy Investments Pty Ltd, a company of which Mr. Boda is a director.

During the six months ended 31 December 2018, all fees for the above KMPs were paid to their respective related entities.

At 31 December 2019, the outstanding balance to Eyeon Investment was \$20,260, comprised of \$18,833 of unpaid director fees and \$1,926 of expense recharges.

### 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 2019, the outstanding balances regarding the convertible notes and loans are as follows:

KMP	Convertible notes USD	Interest on convertible notes USD	Loan USD	Interest on loan USD
Stephen Copulos	737,473	112,127	490,420	41,487
Andrew Richards	-	-	70,060	7,580
	<b>737,473</b>	<b>112,127</b>	<b>560,480</b>	<b>49,067</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. 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.

**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, \$255,758 was recognised as 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 year ended 31 December 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)

### 17. 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) $\geq 1.75\text{mT}$ 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) $\geq 3,000$ tpm	950,000	8-Jan-19	30-Dec-19	1.90	1.90
Class H	Mine production: (2) $\geq 8,000$ tpm	1,750,000	8-Jan-19	30-Dec-19	1.90	1.90
Class I	Mine production: (3) $\geq 16,000$ 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
<b>Total granted</b>		<b>132,700,000</b>				

The fair value of the performance rights granted during the year ended 31 December 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 \$574,538.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. SHARE-BASED PAYMENTS (continued)

## f) Options over ordinary shares granted

The fair value of the options granted during the year ended 31 December 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 \$1,578, which will be expensed over the life of options.

## 18. RELATED PARTIES

The consolidated entity in this report consists of Consolidated Zinc Limited, a company domiciled in Australia, and the entities it controlled at the end of, or during the year ended 31 December 2019.

## a) Group entities

Subsidiaries of Consolidated Zinc Limited	Country of Incorporation	Percentage Owned (%)	
		31-Dec-19	31-Dec-18
Arena Exploration Pty Ltd	Australia	100	100
Minera Latin American Zinc ("MLAZ")	Mexico	100	90
LAZ Holdings Pty Ltd	Australia	100	-

## b) Non-controlling interests

	31-Dec-19 USD	31-Dec-18 USD
<b>Summarised balance sheet</b>		
Current assets	2,983,473	1,677,239
Current liabilities	(6,195,502)	(1,081,416)
<b>Current net assets/(liabilities)</b>	<b>(3,212,029)</b>	<b>595,823</b>
Non-current assets	1,973,368	1,259,453
Non-current liabilities	(13,172,815)	(13,172,815)
<b>Non-current net assets/(liabilities)</b>	<b>(11,199,447)</b>	<b>(11,913,362)</b>
<b>Net assets/(liabilities)</b>	<b>(14,411,476)</b>	<b>(11,317,539)</b>
Accumulated NCI	-	(832,067)
<b>Summarised statement of comprehensive income</b>		
Revenue	9,731,029	483,449
(Loss)/profit for the period	(3,091,581)	(2,311,538)
Total comprehensive (loss)/income	(3,091,581)	(2,823,089)
(Loss)/profit allocated to NCI	(137,057)	(1,132,653)
<b>Summarised cash flows</b>		
Cash flow used in operating activities	(313,959)	(686,195)
Cash flow used in investing activities	(644,958)	(668,561)
Cash flow from financing activities	1,109,797	1,356,658
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>150,880</b>	<b>1,902</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. RELATED PARTIES (continued)

## (i) Acquisition of additional 10% interest in MLAZ

In September 2019, the Company increased its interest in MLAZ to 100%, after acquiring the additional 10% interest from Retec Guarú S.A. de C.V. ("Retec"). 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 mineral products produced from Plomosas. The consideration paid was valued at a nil value, as it is not possible to reliably measure the value of the Royalty, which will be expensed as incurred. 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- Dec-19 \$
Carrying amount of non-controlling interest acquired	969,125
Consideration paid to non-controlling interests	-
Excess consideration paid recognised in the transactions with non-controlling interests reserve within equity	(969,125)

## c) Other transactions with related parties

During the year ended 31 December 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 13(b). \$982,526 of convertible notes held by related parties were converted into ordinary shares during the period as disclosed in note 13(a).

## 19. PARENT INFORMATION

	31-Dec-19 \$	31-Dec-18 \$
<b>Statement of Financial Position</b>		
Current Assets	952,574	278,865
Non-current Assets	2,302,102	16,814,450
<b>Total Assets</b>	<b>3,254,676</b>	<b>17,093,315</b>
Current Liabilities	2,535,157	3,030,449
<b>Total Liabilities</b>	<b>2,535,157</b>	<b>3,030,449</b>
<b>Net Assets</b>	<b>719,519</b>	<b>14,062,866</b>
Issued Capital	30,930,999	27,522,537
Reserves	463,197	162,105
Accumulated Losses	(30,674,677)	(13,621,776)
<b>Total Equity</b>	<b>719,519</b>	<b>14,062,866</b>
<b>Statement of Comprehensive Income</b>		
Total Loss	(15,473,541)	(1,683,648)
Total Comprehensive Loss	(15,473,541)	(1,683,648)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. COMMITMENTS AND CONTINGENCIES

#### a) Commitments

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

	31-Dec-2019 USD	31-Dec-2018 USD
not later than 12 months	161,288	154,631
between 12 months and 5 years	806,441	618,524
greater than 5 years	4,689,062	4,650,148
	5,656,791	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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 21. CASH FLOW INFORMATION

## a) Reconciliation of loss after income tax to net cash outflow from operating activities

	31-Dec-19 USD	Six months to 31-Dec-18 USD
<b>Reconciliation of (loss)/profit after income tax to net cash outflow from operating activities</b>		
Operating loss after income tax	(1,292,784)	(2,008,999)
Share-based payment expense	255,757	16,775
Depreciation and amortisation	470,694	156
Impairment	100,322	
(Gain)/Loss on foreign currency translation	(99,928)	(107,799)
Loss on disposal of asset	-	-
Loss on discontinued operation	-	-
Interest expense	42	88,951
Finance expense	213,143	360,737
Fair value through profit and loss	(1,451,193)	1,023,155
 Change in assets and liabilities		
Decrease/(Increase) in current trade and other receivable	(427,387)	(1,043,868)
Decrease/(Increase) in inventories	(370,370)	(70,745)
Decrease/(Increase) in other assets	(1,101)	(149)
Decrease/(Increase) in non-current trade and other receivable	160,240	(185,155)
Increase/(Decrease) in trade and other payable	1,433,358	536,336
<b>Net cash flow used in operating activities</b>	<b>(1,009,207)</b>	<b>(1,390,605)</b>

## b) Non-cash financing and investing activities

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

	31-Dec-19 USD	Six months to 31-Dec-18 USD
<b>Conversion of convertible notes</b>		
Issue of 166,833,373 shares upon conversion of convertible notes	1,149,399	-
Issue of 16,419,123 shares in payment of interest payable on convertible notes	111,847	-
Issue of 49,362,000 shares upon conversion	-	430,909
Issue of 20,000,000 shares upon conversion	-	145,493
Issue of 1,326,027 shares in payment of interest payable on convertible notes	-	9,646
 <b>Shares issued for acquisition of 39% interest in MLAZ</b>		
Issue of 72,649,573 shares to the non-controlling interest holders	-	1,236,690
Issue of 34,188,034 shares to Arena vendors	-	581,972
	<b>1,261,246</b>	<b>2,404,710</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 21. CASH FLOW INFORMATION (continued)

	31-Dec-19	Six months to 31-Dec-18
<i>Reconciliation of movement in borrowings</i>	\$	\$
Balance at the beginning of the year	2,136,507	1,084,978
Net cash movement	(120,973)	1,491,302
<i>Non-cash movement:</i>		
Equity-settled liabilities	(1,261,246)	(568,161)
Effect of change in foreign currency rates	71,705	1
Capitalised interest and change in embedded derivative	432,167	128,387
	1,258,160	2,136,507

## 22. 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 ("USD"); revenue from the sale of zinc and lead concentrates are 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:

	31-Dec-19 USD	31-Dec-18* USD
Cash and cash equivalents held in MXN	3,205	6,427
Cash and cash equivalents held in AUD	172,942	178,421
Trade and other receivables in MXN	481	-
Trade and other receivables in AUD	174,375	237,769
Indirect taxes receivable in MXN	1,220,022	966,380
Trade and other payables in MXN	(1,598,067)	(857,038)
Trade and other payables in AUD	(159,314)	(154,939)
Borrowings in AUD	(1,258,160)	(2,136,507)
Derivatives in AUD	(125,695)	(1,590,009)
Lease liability in MXN	(11,616)	-
Lease liability in AUD	(19,371)	-
	(1,601,198)	(3,349,496)

\*Prior year restated as a result of a correction of error (note 23)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 22. FINANCIAL INSTRUMENTS (continued)

## Group sensitivity

Based on the financial instruments held at 31 December 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 year would have been \$122,692 higher/\$184,666 lower (six months to 31 December 2018: \$334,950 higher/\$360,304 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.

## (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 31 December 2019, the Group had open quotational pricing risk for December zinc concentrate sales which average over the month of January 2020 and lead concentrate sales over the October – December 2019 period which have quotational period of four months after the month of delivery (unless price fixed with the offtaker once final assays are known).

## 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 2019 were as follows:

<i>Financial assets and liabilities</i>	31-Dec-19 USD	31-Dec-18* USD
<b>Financial assets</b>		
Cash and cash equivalents	529,686	184,826
Equity investments through profit or loss	1,101	564
Trade and other receivables - current	2,131,995	1,704,607
Trade and other receivables – non current	69,993	230,234
Total Financial Assets	2,732,775	2,120,231
<b>Financial Liabilities</b>		
Trade and other payables	2,957,820	1,426,767
Borrowings	1,258,160	2,136,507
Lease liability	30,987	-
Derivatives	125,695	1,590,009
Total Financial Liabilities	4,372,662	5,153,283

\*Prior year restated as a result of a correction of error (note 23)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 22. 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.

	Less than 6 months	6-12 months	Total contractual	Carrying amount of liabilities
<i>Financial liabilities</i>	USD	USD	USD	USD
<b>As at December 2019</b>				
<b>Non-derivatives</b>				
Non-interest bearing	2,957,820	-	2,957,820	2,957,820
Interest bearing (i)	1,485,666	4,501	1,490,167	1,490,167
<b>Total non-derivatives</b>	<b>4,443,486</b>	<b>4,501</b>	<b>4,447,987</b>	<b>4,447,987</b>
<b>As at 31 December 2018</b>				
<b>Non-derivatives</b>				
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
<b>Total non-derivatives</b>	<b>2,835,864</b>	<b>727,410</b>	<b>3,563,274</b>	<b>3,563,274</b>

- (i) Subsequent to balance date, the maturity date of unsecured related party loans of \$609,547 (inclusive of capitalised interest) was extended to 30 June 2021.

## 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.

<i>Credit risk</i>	31-Dec-19 USD	31-Dec-18 USD
Indirect taxes receivable in foreign jurisdictions	1,220,022	966,380
Trade receivables	617,682	624,930
	<b>1,837,704</b>	<b>1,591,310</b>

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 22. 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	Fixed interest rate 1 year or less	Non-interest bearing	Total	Weighted effective interest rate
	USD	USD	USD	USD	%
<b>At 31 December 2019</b>					
<b>Financial assets</b>					
Cash	529,686	-	-	529,686	-
Investments held for trading	-	-	1,101	1,101	-
Trade and other receivables - current	-	-	2,131,995	2,131,995	-
Trade and other receivables - non-current	-	-	69,993	69,993	-
<b>Total non-derivative financial assets</b>	<b>529,686</b>	<b>-</b>	<b>2,203,089</b>	<b>2,732,775</b>	
<b>Financial liabilities</b>					
Trade and other payables	-	-	2,957,820	2,957,820	-
Borrowings (excluding lease liability)	-	1,258,160	-	1,258,160	10
Lease liability	-	30,987	-	30,987	-
<b>Total non-derivative financial liabilities</b>	<b>-</b>	<b>1,289,147</b>	<b>2,957,820</b>	<b>4,246,967</b>	
<b>At 31 December 2018</b>					
<b>Financial assets</b>					
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	
<b>Total non-derivative financial assets</b>	<b>184,826</b>	<b>-</b>	<b>1,935,405</b>	<b>2,120,231</b>	
<b>Financial liabilities</b>					
Trade and other payables	-	-	1,426,767	1,426,767	
Borrowings	-	2,076,450	60,057	2,136,507	10
<b>Total non-derivative financial liabilities</b>	<b>-</b>	<b>2,076,450</b>	<b>1,486,824</b>	<b>3,563,274</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 23. CRITICAL JUDGEMENTS, ESTIMATES AND ERRORS

During the year ended 31 December 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:

Statement of financial position	31-Dec-18		
	Previous amount \$	Increase/(Decrease) \$	Restated amount \$
Borrowings	2,703,360	(566,855)	2,136,507
Derivative liability	-	1,590,009	1,590,009
Net assets	(682,383)	(1,023,155)	(1,705,538)
Accumulated losses	(20,990,678)	(1,023,155)	(22,013,833)
Total equity attributable to equity holders of the parent entity	149,686	(1,023,155)	(873,471)

Statement of profit or loss and other comprehensive income	31-Dec-18		
	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	146,811	(1,023,155)	(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 13(a) and note 22(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)

## 24. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Other than set out below, no matters or circumstances have arisen since the end of the year ended 31 December 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 13 January 2020, the Company announced Caminos y Construcciones Ganti S.A. de C.V. (Ganti) submitted legal proceedings in the Federal District Court of Mexico claiming final costs outstanding of Mexican Peso 23,632,639 (inclusive of 16% VAT) or approximately US\$1,254,040 (as at 31 December 2019 exchange rate of 18.8452 Peso to 1 USD) which has been recorded as an accrual in full at 31 December 2019. This action is being defended as MLAZ's audits and reviews have identified an amount substantially lower sum than claimed by Ganti. The Company previously announced on 3 December 2019 its decision to terminate the mining contract with Ganti, a result of an annual review of the contractor's performance and productivity, and a review of their progress claims which identified significant overcharging and their underperformance at the Plomosas mine.
- On 29 January 2020, the Company announced a regional gold exploration program of first pass rock chip results of outcrops and old workings returned exciting results with grades up to 61.0g/t Au, 27.5g/t Au and 7.42g/t Au. The rock chip results, indicate identification of a potential gold system over an area of at least one kilometre (1km) within the Plomosas concessions. This will be followed up with an aggressive exploration program to define targets. Mapping and sampling are currently ongoing, and results will be made announced as received. Refer to the ASX announcement dated 30 January 2020 for full details.
- On 26 February 2020, the holder of the convertible notes maturing in June 2020 totalling a principal balance of A\$0.424 million plus accrued interest of A\$0.076 million exercised their option to convert early into fully paid ordinary shares at A\$0.01 per share. The remaining convertible notes on issue following the conversion noted above on 26 February 2020 are A\$0.628 million;
- On 2 March 2020, the Company announced it has entered into unsecured loan facilities with the Company's major shareholders, the Copulos and Retzos Groups. The unsecured loan facilities are for a total of A\$400,000 at an interest rate of 10.0% per annum, repayable by 30 June 2021. The loan facilities will be used for general working capital during the current period of depressed zinc prices. Should the loan facilities not be repaid within 2 months of drawdown, at the option of the lenders and subject to any regulatory and shareholder approvals required, the loan facilities may convert into equity at the lower of \$0.007 per share or the next capital raising price.
- On 9 March 2020, the company announced a fully underwritten 1 for 5 rights issue at A\$0.005 per share to raise A\$1.725 million (before costs) with a free attaching option for each new share subscribed for at an exercise price of A\$0.01 per share and a 3 year term from the date of issue.
- On 9 March 2020, the company announced it has extended the maturity date of the unsecured loans with a principal balance of A\$0.800 million from entities related to Mr Stephen Copulos and Mr Andrew Richards to 30 June 2021, from 30 June 2020. All other terms of the unsecured loans remained the same.
- Since March, the Company has been following Australian and Mexican Government guidelines for the COVID-19 global pandemic and has updated staff and contractors regularly as the situation evolved. At the time of this report no staff or contractors of the Group have tested positive for the virus (SARS-CoV-2) nor have there been any suspected cases. The Company has limited all non-essential travel and is complying with social distancing practices to limit employee and contractor contact. The company has issued policies and procedures to identify any staff who may be at risk from COVID-19 and identify/isolate any suspected cases of COVID-19 pending full medical review. At the date of this report, the Plomosas operations continue to operate unaffected by the COVID-19 pandemic.

## DIRECTORS' DECLARATION

In the directors' opinion:

- (a) The financial statements and notes set out on pages 35 to 79 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 31 December 2019 and of its performance for the half-year ended on that date and
- (b) Subject to the matters described in *Note 1 "Working Capital Deficiency" on pages 41-42,* 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  
31 March 2020

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Consolidated Zinc Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

Perth, Western Australia  
31 March 2020



**M R Ohm**  
Partner

**hlb.com.au**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

**T:** +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

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**INDEPENDENT AUDITOR'S REPORT**

To the members of Consolidated Zinc Limited

**Report on the Audit of 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 2019, 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 year 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:

- a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for opinion*

We 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 other ethical responsibilities 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 related to going concern*

We draw attention to Note 1 in the 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 opinion is not modified in respect of this matter.

*Emphasis of matter – impact of novel coronavirus (COVID-19)*

We draw attention to Note 1 in the financial report which details the possible impact on the Group of COVID-19. Our opinion is not modified in respect of this matter.

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

**hlb.com.au****HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

T: +61 (0)8 9227 7500 E: mailbox@hlbwa.com.au

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In addition to the matters described in the emphasis of matter paragraphs above, we have determined the matters below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
<p><b>Recoverability of Mine and Development Property</b> Refer to Note 11(c)</p> <p>As at 31 December 2019, the Group had a balance of \$1,472,467 in relation to mine and development property.</p> <p>An impairment assessment was conducted by management due to the existence of impairment indicators arising under AASB 136 <i>Impairment of Assets</i>.</p> <p>The impairment assessment conducted under AASB 136 involved a comparison of the recoverable amount of the cash generating unit to which the balance was allocated to with the carrying amount of the related items in the balance sheet. Recoverable amount is based upon the higher of fair value less costs of disposal and value-in-use.</p> <p>The evaluation of recoverable amount is considered a key audit matter as it was based upon a value-in-use calculation which required significant judgement and estimation. In addition, the balance is material to the users of the financial statements and involved the most communication with management.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>- Critically evaluating management's methodology in the value-in-use model and the basis for key assumptions;</li> <li>- Reviewing the mathematical accuracy of the value-in-use model;</li> <li>- Performing sensitivity analyses around the key inputs used in the model such as operating costs, recoveries, grade and commodity prices;</li> <li>- Considering the appropriateness of the discount rate used;</li> <li>- Ensuring the carrying value of the cash-generating unit had been correctly determined;</li> <li>- Comparing value-in-use to the carrying amount of the cash-generating unit; and</li> <li>- Assessing the appropriateness of the disclosures included in the relevant notes to the financial report.</li> </ul>
<p><b>Convertible Notes</b> Refer to Note 13</p> <p>At 31 December 2019, the Group had convertible notes outstanding with a carrying value of \$648,613 and an associated derivative liability of \$125,695.</p> <p>As part of our procedures, we considered the appropriateness of the accounting treatment of the Group's convertible notes under relevant accounting standards.</p> <p>We considered this to be a key audit matter as it involved the most communication with management, it is important to the users' understanding of the financial statements as a whole and involves a degree of complexity.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>- Considering the terms and conditions of the convertible loan note agreements;</li> <li>- Reviewing the determination of the treatment of the conversion features as either debt or equity;</li> <li>- Reviewing an independent valuation obtained by management of the derivative liability and the associated inputs for reasonableness;</li> <li>- Ensuring the convertible notes were correctly recognised at inception and at balance date in relation to the various components; and</li> <li>- Assessing the adequacy of the disclosures within the financial statements.</li> </ul>

*Information other than the financial report and auditor's report thereon*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and our 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.

*Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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 ability of the Group 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 Group 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 an 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 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 this 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 the 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 significance in the audit of the financial report of the current period and are therefore the 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 the public interest benefits of such communication.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included within the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Consolidated Zinc Limited for the year ended 31 December 2019 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

*HLB Mann Judd*

**HLB Mann Judd**  
**Chartered Accountants**

**Perth, Western Australia**  
**31 March 2020**



**M R Ohm**  
**Partner**

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](http://www.consolidatedzinc.com.au).

#### SHAREHOLDINGS

The names of the substantial shareholders listed on the Company's register as at 24 April 2020:

Shareholder	Number	Percentage of issued capital held
Copulos Group	550,729,086	31.91%
Retzos Group	128,114,241	7.42%

#### 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 1,725,933,313 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 24 April 2020)

Shares Range	No of Holders	Units	%
100,001 and above	730	1,699,446,296	98.47
10,001 – 100,000	514	26,116,469	1.51
5,001 – 10,000	21	173,860	0.01
1,001 – 5,000	62	153,721	0.01
1 – 1,000	145	42,967	0.00
<b>Total</b>	<b>1,472</b>	<b>1,725,933,313</b>	<b>100.00</b>

There are 681 holders of unmarketable parcels comprising a total of 20,387,017 ordinary shares.



**Unlisted options (as at 24 April 2020)**

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	40	57,283,883
Exercisable at \$0.06 on or before 30 June 2020	1	1,000,000
Exercisable at \$0.02 on or before 30 September 2021	7	20,000,000
Exercisable at \$0.06 on or before 30 June 2023	1	1,250,000
Exercisable at \$0.06 on or before 30 September 2023	1	1,250,000
<b>Total</b>		<b>123,283,883</b>

**TWENTY LARGEST SHAREHOLDERS  
(As at 24 April 2020)**

	Name	Number of Shares	%
1	EYEON INVESTMENTS PTY LTD	204,214,358	11.83
2	COPULOS SUPERANNUATION PTY LTD	127,107,505	7.36
3	SPACETIME PTY LTD	82,226,390	4.76
4	WESTPARK OPERATIONS PTY LTD	76,684,362	4.44
5	CITYWEST CORP PTY LTD	71,769,578	4.16
6	FARJOY PTY LTD	63,000,000	3.65
7	AKG (MIDLAND) PTY LTD	41,144,898	2.38
8	OODACHI PTY LTD	40,000,000	2.32
9	CHRIKIM PTY LTD	36,114,582	2.09
10	BNP PARIBAS NOMINEES PTY LTD	35,174,431	2.04
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	32,261,745	1.87
12	SHAYDEN NOMINEES PTY LTD	24,386,752	1.41
13	RETZOS EXECUTIVE PTY LTD	23,673,012	1.37
14	RETZOS FAMILY PTY LTD	22,916,667	1.33
15	PAUL CONSTANTINOU SUPERANNUATION PTY LTD	22,340,249	1.29
16	MITROPOULOS NOMINEES PTY LTD	19,090,582	1.11
17	NORDCO AUSTRALIA PTY LTD	18,000,000	1.04
18	MR STEPHEN DONALD & MS SHANDELLE SCHIPPLOCK	16,700,000	0.97
19	SPINITE PTY LTD	15,677,622	0.91
20	EQUITAS NOMINEES PTY LIMITED	14,519,370	0.84
		987,002,103	57.19

The schedule of tenements and concessions held by the Company as at 27 April 2020 are summarised in the Table below.

Consolidated Zinc Limited – Tenement schedule						
Lease	Project	Name	Type	Lease Status	Expiry Date	CZL Equity
<b>Mexico</b>						
217641	Plomosas	La Falla	Mining	Granted	05/08/2052	100%
218242	Plomosas	La Verdad	Mining	Granted	16/10/2052	100%
225527	Plomosas	El Olvido	Exploitation	Granted	19/09/2055	100%
224880	Plomosas	Pronto	Exploitation	Granted	20/06/2055	100%
218272	Plomosas	Ripley	Exploitation	Granted	16/10/2052	100%
216882	Plomosas	La México	Exploitation	Granted	04/06/2052	100%
227077	Plomosas	Don Lucas	Exploitation	Granted	03/05/2056	100%
227078	Plomosas	Don Lucas II	Mining	Granted	03/05/2056	100%
227664	Plomosas	Don Lucas III	Mining	Granted	27/07/2056	100%
230175	Plomosas	Don Lucas IV	Mining	Granted	26/07/2057	100%
235942	Plomosas	Don Sebastain	Exploration	Granted	19/04/2060	100%