



CONSOLIDATED ZINC LIMITED

And its Controlled Entities

Annual Report 2016

ABN 27 118 554 359

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CORPORATE DIRECTORY

DIRECTORS

Mr Stephen Copulos – Non-Executive Chairman
Mr William Dix – Managing Director
Mr Andrew Richards – Executive Director
Mr Luis Rogelio Martinez Valles – Non-Executive Director

COMPANY SECRETARY

Mr Andrew Beigel

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

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SOLICITORS

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NORTHBRIDGE WA 6865

SHARE REGISTRY

Link Market Services Limited
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Perth WA 6000

AUDITORS

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

STOCK EXCHANGE

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

(ASX: CZL)

CHAIRMAN'S REVIEW

Dear Fellow Consolidated Zinc Shareholders

It is my pleasure to be writing this letter in my capacity as your Chairman and the major shareholder in Consolidated Zinc.

This year has seen some major and exciting developments for the Company since it acquired the extremely high grade Plomosas zinc-lead-silver mine in northern Mexico last year. On the technical side we have encountered and continue to intersect high grade zinc mineralisation in our underground drilling program and are on schedule to outline a JORC compliant resource in the next few months.

The Plomosas Project covers 11 Exploration and Exploitation Concessions totalling 3,019 ha in area and has an extensive history of exploration and development in base metal operations. Records show the Plomosas project to be in the global zinc industry's upper quartile for grade, with approx. 1.7mt of ore having been mined since 1943, with average historical grades of 15-25% Zinc (Zn) + Lead (Pb) with 40-60 g/t Silver (Ag) and clean mineralogy.

Resource definition drilling from Level 7, 230m below surface and the lowest point of commercial historical production, has encountered high grade mineralisation including several intercepts up to 37.86% zinc and 53.37% combined zinc plus lead in the horizon immediately below the underground workings. This not only provides assurance of the existence of mineralisation at depth but will allow CZL to access the mineralisation from the existing underground workings with minimum delay and relatively low capital cost.

Preliminary metallurgical testwork on samples from the semi oxide mineralisation during the year also indicated that high zinc recoveries to concentrate could be achieved using conventional processing methods.

I am also pleased to report that under the guidance of our Managing Director, Mr Will Dix, Exploration Manager, Mr Steve Boda and the team, we have continued to enforce new safety protocols and work practices; refurbished and dewatered significant portions of the underground workings. We have also extended underground access in areas including access to Level 8. As part of the underground refurbishment, four drilling platforms have been established to enable extensional drilling along strike and down dip of the Main Manto Horizon at and below Level 7.

We remain confident of achieving our key objective to report a JORC resource on the Semi Oxide and Sulphide mineralisation later in 2016. In parallel we will develop plans for mining and processing using the plant on site and extensive underground mine development in order to facilitate early access for relatively modest capital expenditure.

Additional exploration potential exists within the project tenements as well in the region but the Company's present focus is to re-establish the mine operations targeting an initial 10 year mine life on resources to be defined immediately below the mine workings and along strike.

On the corporate side we have been able to attract significant funds through capital raisings during the year and I am pleased to have attracted some experienced and notable investors to the company's share register.

The board is also very conscious of every dollar we spend and to ensure we gain the maximum value in executing our Strategy. During the year we re-prioritised the other projects we held in Western Australia and Sweden and felt it was in the Company's best interests to relinquish them.

I would like to thank you for your support as shareholders of Consolidated Zinc and assist us building a stronger, focused mineral company for the benefit of all shareholders.

Yours sincerely

Stephen Copulos

Stephen Copulos
Chairman

REVIEW OF OPERATIONS

During the reporting year the Company made the decision to cease working on both the Varmland and Jailor Bore Projects and both were subsequently relinquished. The geographic focus is now 100% on northern Mexico where the Company's flagship high grade zinc-lead-silver Plomosas Project is located in the state of Chihuahua.

MEXICO – The Plomosas Zinc-Lead-Silver Project

Background:

The Plomosas Project covers 11 Exploration and Exploitation Concessions totalling 3,019Ha in area with an extensive history of exploration and development in base metal operations. Plomosas is located 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).

The project comprises remarkably high grades of Zinc and Lead (approximately 15% - 20% combined) with silver credits up to 2 oz Ag and contains low iron mineralisation which has historically provided a clean, attractive concentrate.

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

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

Plomosas has been mined in several stages since 1943 down to approximately 240 metres below surface via room and pillar stopes using traditional air leg drill and blast techniques. In places, historical production realised approximately 20,000 tonnes mineralisation per vertical metre with remnant material remaining. The mineralisation continues at depth and there is over 6km 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

The Project comprises a historic mine located within Chihuahua's prolific Zinc-Lead Mineralised Belt whose operations have been put on hold by the Company while resources and reserves are defined and a comprehensive minelife plan is established.

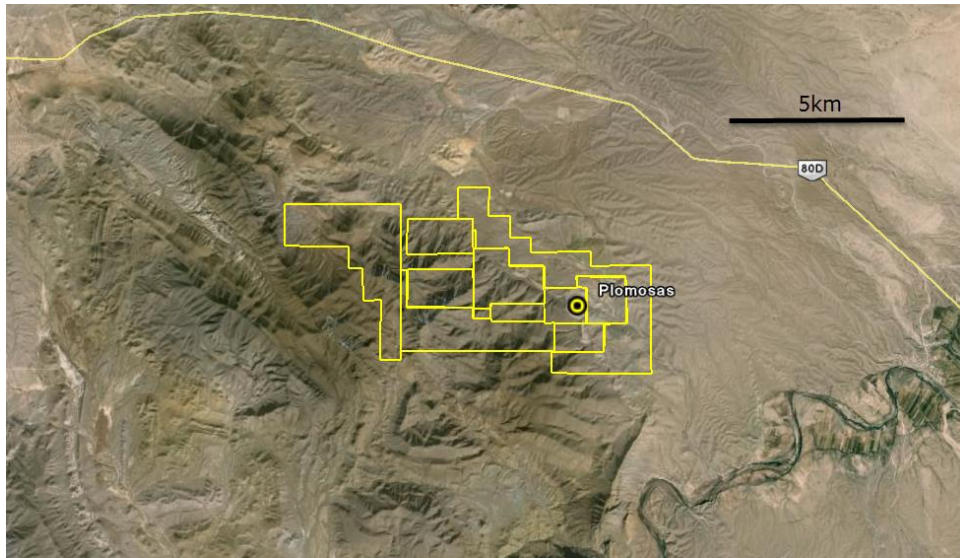


Figure 2. Plomosas project tenement plan.



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

Exploration Summary 2016

Plomosas Mine rehabilitation, mapping and drilling

Geological mapping and interpretation occurred throughout the year in conjunction with mine dewatering and drive rehabilitation. A geotechnical study was completed in Level 7 with no major issues identified.

By June 30, 2016, a total of 44 holes had been drilled from underground positions and 18 holes from surface for a total of 7,667.6 metres.

MANAGING DIRECTOR'S REPORT

Mapping and rock chip sampling by the company identified several high grade units within the mine including the Tres Amigos unit in the footwall to the Main Manto Horizon which returned grades up to 30% zinc in underground drilling from Level 5 (approx. 180 metres below surface (mbs)). Exploration of this unit is ongoing but the company's priority remained the resource definition drilling and exposure of the Main Manto Horizon semi oxide and sulphide zinc-lead-silver mineralisation from Level 7 as dewatering and ground rehabilitation continued (Figures 4 and 5).

Existing underground development down to Level 7 (240 mbs) facilitated drill access and will provide access for future mining operations. Four cross cuts off the Level 7 drive have now been completed to establish drill cuddies and another is planned to step out from Level 8. Figure 6 illustrates the location of these developments and the traces of drillholes completed as at September 2016.

Best results received for the Tres Amigos zone include¹:

| | | | | |
|-----------|---------|------------|------------|-------------|
| LV5DD001: | 4.70m @ | 42.28% Zn, | 4.61% Pb, | 32.8 g/t Ag |
| LV5DD003: | 4.45m @ | 19.34% Zn, | 1.67% Pb, | 15.3 g/t Ag |
| and: | 4.15m @ | 21.71% Zn, | 0.05% Pb, | 7.7 g/t Ag |
| LV5DD005: | 1.15m @ | 26.50% Zn, | 0.38% Pb, | 34.4 g/t Ag |
| LV5DD008: | 1.10m @ | 18.35% Zn, | 12.03% Pb, | 74.4 g/t Ag |
| LV5DD009: | 1.15m @ | 28.90% Zn, | 2.33% Pb, | 12.2 g/t Ag |
| TRSRD004: | 1.10m @ | 5.02% Zn, | 28.71% Pb, | 76.1 g/t Ag |
| TRSD008: | 2.00m @ | 13.90% Zn, | 1.27% Pb, | 15.8 g/t Ag |
| TRSD010: | 4.00m @ | 11.68% Zn, | 0.13% Pb, | 5.7 g/t Ag |

The Main Manto Horizon massive sulphides at and below Level 7 was targeted from Level 7 cuddies by 32 underground diamond drillholes completed for a total of 2,923.75 metres. These resource definition holes encountered numerous intercepts up to 13.8m of often bonanza grades over 50% zinc + lead, within the Main Manto Horizon. Drilling also provided a better understanding of the plunge of the pinch-and-swell style of mineralisation with several drillholes defining the limits of individual lenses to enable an initial resource estimate to be undertaken in compliance with the JORC reporting guidelines later in 2016.

Best results received for the Level 7 Deeps semi oxide and sulphide mineralisation within the Main Manto Horizon include¹:

| | | | | |
|-----------|----------|------------|------------|--------------|
| LV7DD002: | 6.75m @ | 30.13% Zn, | 12.67% Pb, | 94.2 g/t Ag |
| LV7DD003: | 2.90m @ | 34.52% Zn, | 14.95% Pb, | 90.0 g/t Ag |
| and: | 0.95m @ | 29.10% Zn, | 11.50% Pb, | 61.3 g/t Ag |
| LV7DD005: | 1.80m @ | 33.37% Zn, | 20.10% Pb, | 100.8 g/t Ag |
| LV7DD009: | 6.85m @ | 14.44% Zn, | 4.18% Pb, | 42.6 g/t Ag |
| LV7DD010: | 3.15m @ | 37.86% Zn, | 20.10% Pb, | 49.0 g/t Ag |
| LV7DD012: | 4.10m @ | 25.20% Zn, | 12.66% Pb, | 70.7 g/t Ag |
| LV7DD018: | 4.55m @ | 33.72% Zn, | 14.32% Pb, | 82.3 g/t Ag |
| LV7DD020: | 1.50m @ | 32.09% Zn, | 18.10% Pb, | 84.5 g/t Ag |
| LV7DD021: | 1.90m @ | 32.12% Zn, | 16.75% Pb, | 108.0 g/t Ag |
| LV7DD023: | 1.50m @ | 21.10% Zn, | 11.80% Pb, | 66.1 g/t Ag |
| LV7DD026: | 8.50m @ | 34.99% Zn, | 15.40% Pb, | 158.5 g/t Ag |
| LV7DD030: | 13.80m @ | 24.97% Zn, | 14.07% Pb, | 71.8 g/t Ag |

All drill and exploration results have been publicly reported to the ASX throughout the year and the reader is referred to numerous announcements and quarterly reports for further details. However, Figures 6 to 8 provide locations of the drill collars and traces as well as a summary of drill intercepts and assays for all deep drilling at and below Level 7 to August 2016.

Figure 9 illustrates the spatial relationship of the intercepts to date within the mineralised horizon with the pierce points depicted as "grade x True width" symbols to illustrate the relative strength of these intercepts. This also illustrates the pinch and swell nature of the mineralisation which will become more obvious as the infill and extensional resource drilling program continues. The mineralised horizon highlighted in the figure is for Level 7 only.

Very high grade zinc-lead mineralisation over encouraging widths were obtained from drilling of the Main Manto Horizon sulphide mineralisation below Level 7. The drilling to date has demonstrated that high grade mineralisation continues below Level 7 which was the deepest ore drive historically developed at Plomosas. This is a major step in technically de-risking the project and provided evidence for the extension of mineralisation at depth.

¹ Intersection lengths are downhole widths. Refer to ASX announcements for interpretation of True Widths.

MANAGING DIRECTOR'S REPORT

Mineralisation within both the Main Manto Horizon and the Tres Amigos Horizon is found in limestone units and associated with intense shearing and brecciation near the upper or lower contact of the host limestone. Individual units of massive sulphide mineralisation vary from 0.5m up to around 4m in places and averages around two to three metres in the central zones. The massive sulphide mineralisation pinches and swells within the ductile shear zone and there may be one or more mineralising stages with associated remobilisation and overprinting in some areas. This is the typical and expected nature of this style of mineralisation.

Drilling is continuing from Level 7 cuddies and drill rigs will also move to additional cuddies along strike and in Level 8 that will be established in due course. These will provide drilling positions to enable extension of the identified mineralisation along strike and down dip for inclusion in the JORC compliant resource.

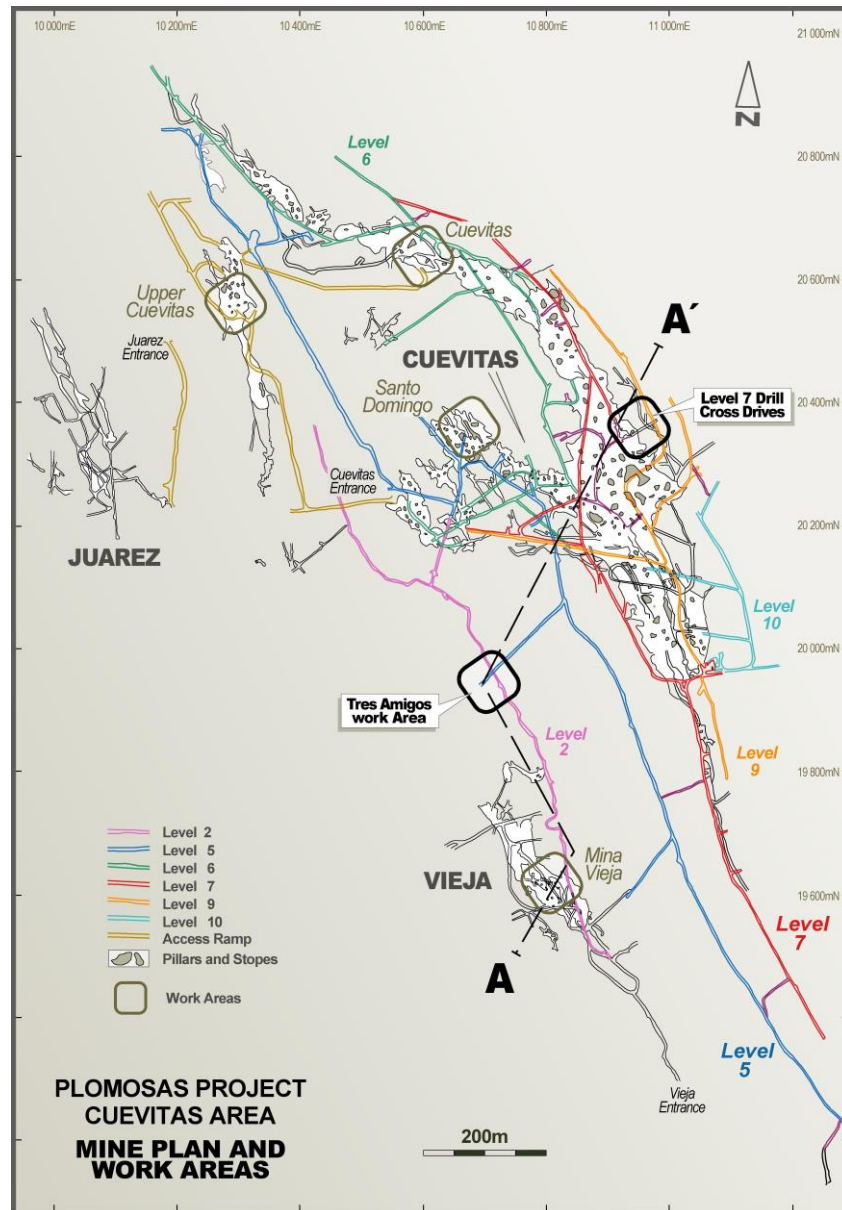


Figure 4. Plan view of the Plomosas mine showing location of the cross section in Figure 5 (trace A-A') and work areas referred to in the text including the Tres Amigos zone and the drill drive access being established for the Main Manto Horizon drilling below Level 7.

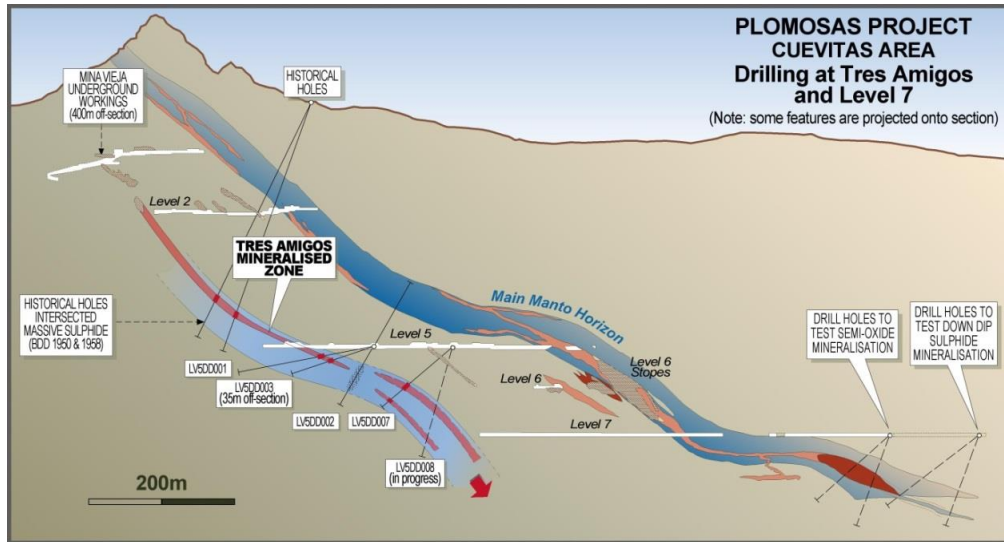
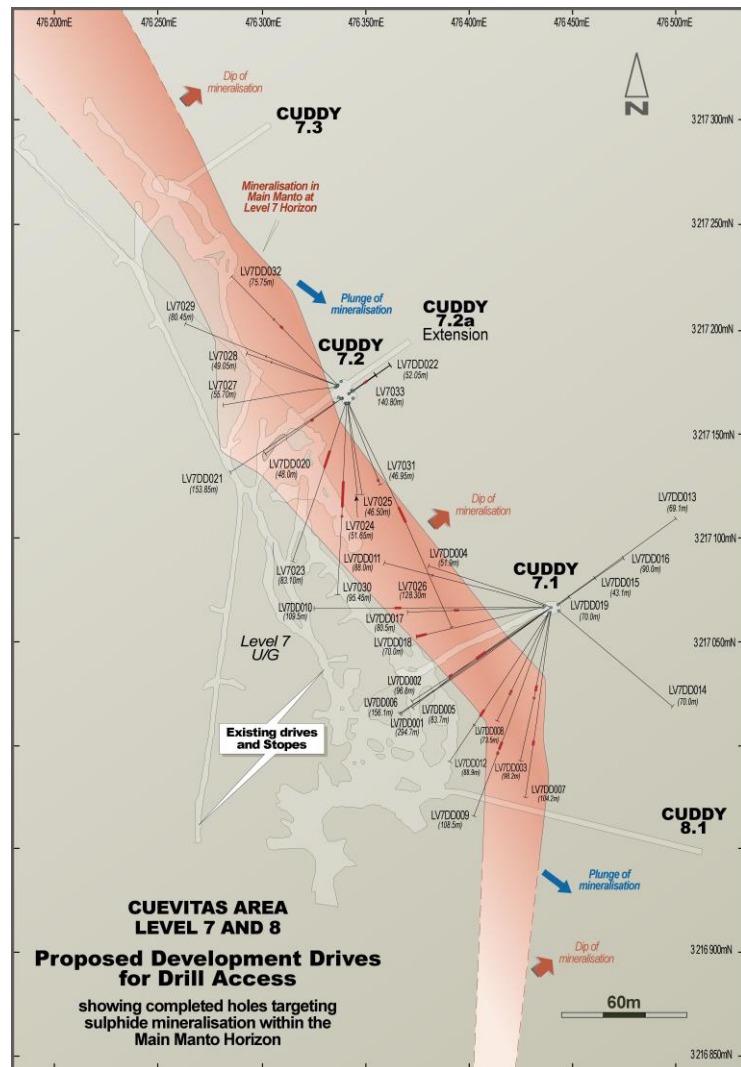


Figure 5. Section view of the Plomosas mine through Cuevitas area (A-A') showing the Tres Amigos zone, historical drilling and the drilling completed/planned for the Main Manto Horizon below Level 7.



MANAGING DIRECTOR'S REPORT

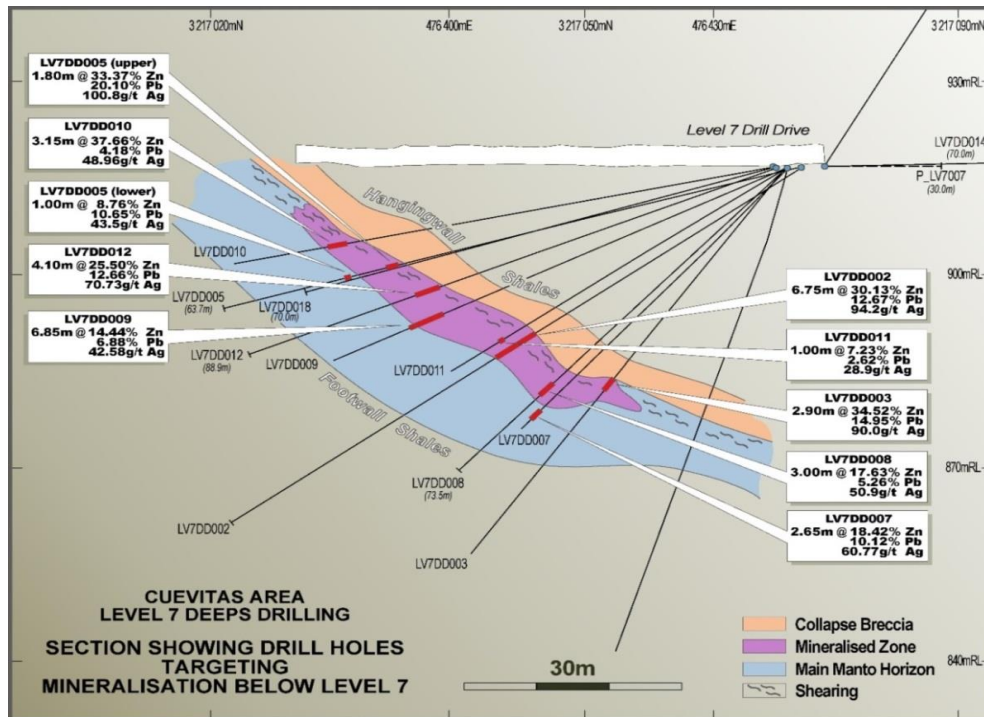


Figure 7. Section view of the extension of mineralisation below Level 7 cuddy 7.1 in the main Cuevitas zone of the Plomosas mine.

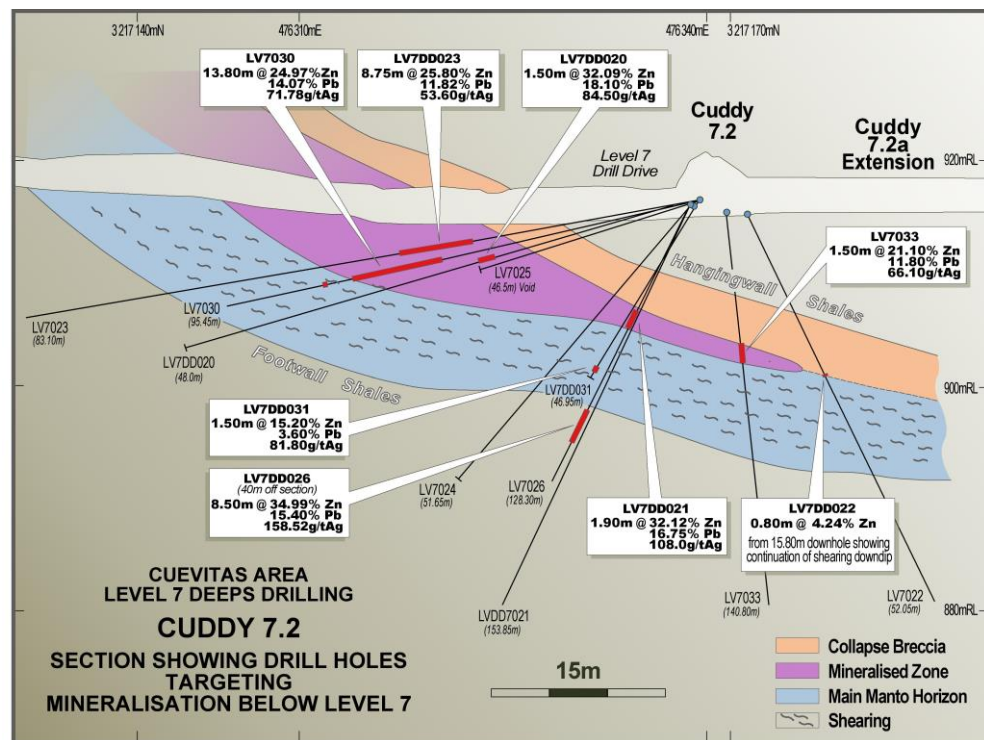


Figure 8. Cross section through Level 7, Cuddy 7.2 showing intercepts and stratigraphy. NOTE that Hole LV7DD026 was drilled 40m off section and when projected to the section in this diagram incorrectly suggests it is found in the footwall shale rather than the mineralised zone above.

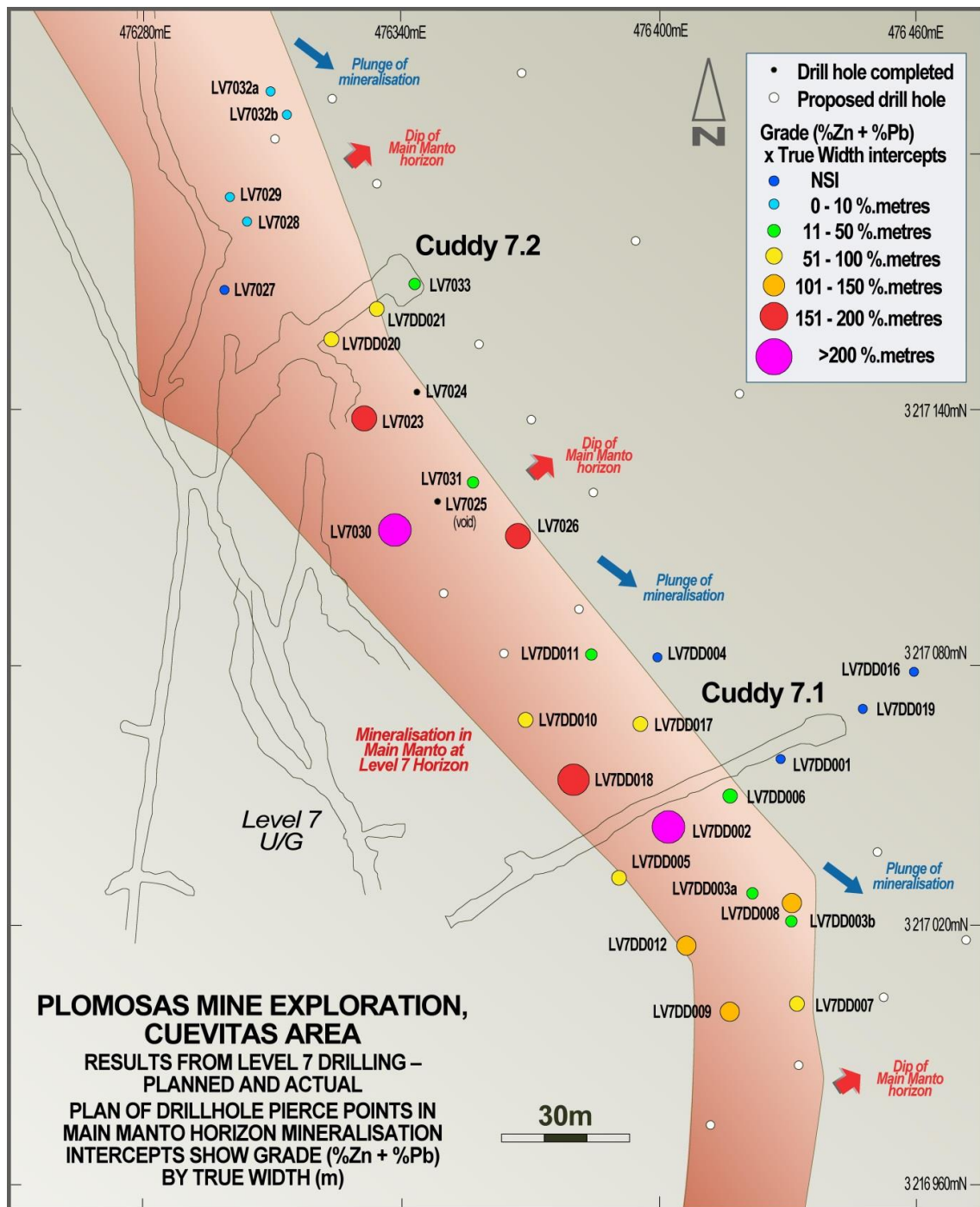


Figure 9. Plan view of the Plomosas mine through Level 7 showing pierce points of recent drilling into the Main Manto Horizon (MMH) massive sulphide mineralisation. These have been coded to illustrate the strength of the intercept using width multiplied by combined zinc-lead grades (m.%(ZnPb)). Note the plunge of mineralised lenses to the south east within the MMH which dips to the north east. Note also that resource definition drill holes are planned to infill and extend these known mineralised lenses as well as identifying repetitions of the lenses down dip to the north east which would be characteristic of the pinch and swell type structures encountered at Plomosas.

Plomosas Regional Exploration

In the final quarter of 2016, regional exploration commenced with compilation of historical data, mapping and rock chip sampling of the mine sequence of 7km strike length within the Plomosas tenements. Compilation and assessment of this exercise is currently in progress.

Geophysical Survey

Detailed geophysical surveys have commenced over an area shown in Figure 10 with programs comprising a close spaced heli-mag survey and detailed gravity.

These surveys are designed to enable the Company to complete a detailed structural interpretation of the area which, coupled with latest geological mapping, prospecting and gossan sampling, will identify areas for further investigation both near the existing mine infrastructure and along strike within the 7km long mine sequence.

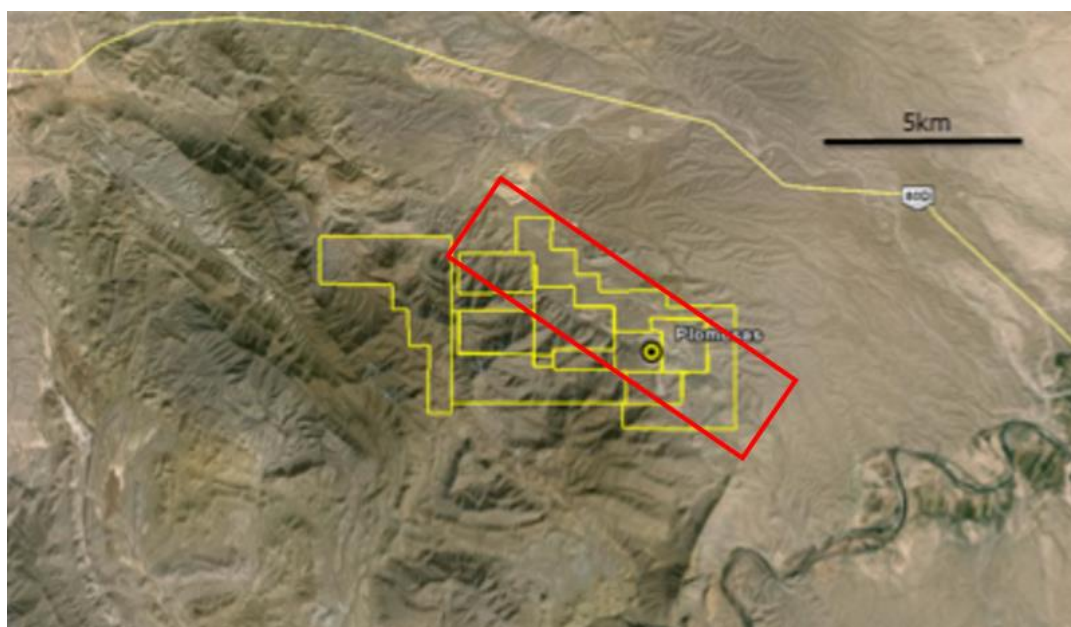


Figure 10. Area (red outline) of proposed heli-mag survey and detailed gravity programs currently in progress.

Metallurgical Testwork

Metallurgical testwork of samples taken from the semi oxide mineralisation continued to provide input for process design. Processing is expected to require only industry standard and proven processes and methods. Petrographic results from the semi-oxidised sulphide material submitted previously confirm the standard nature of the mineralogy and the close relationship between sphalerite and galena.

Preliminary metallurgical results suggest that at around 75 micron grind size, high grade, clean zinc concentrates could be produced along with lead concentrates containing significant zinc. The lead concentrates would benefit from additional back-end cleaning, with perhaps up to four streams, to further separate the lead and zinc. This process would benefit from pre-aeration but not necessarily sulphidisation of the lead concentrate.

While metallurgical studies are ongoing and the semi oxide material needs to be considered alongside the greater tonnage of sulphide material that exists, work to date suggests the type of processing that would be applied to Plomosas ore is not out of the ordinary but industry standard milling, roughers, cleaners, scavengers and regrinding with standard reagents.

Additional testwork has been planned for the sulphide mineralisation with a new suite of drill core samples from Level 7 sulphide mineralisation submitted for analysis.

Work Programs and Exploration Outlook

During the 2016-2017 reporting year it is expected that the Company will rapidly move the project forward. As well as the drilling that is planned to continue from the established drilling positions in Level 7, additional development will also be

MANAGING DIRECTOR'S REPORT

completed to enable further drilling down dip and down plunge. This will be planned to test for both extensions to the current zone and also repeat lenses of mineralisation.

Towards the end of calendar year 2016 it is expected that the Company will be in a position to release a maiden JORC resource that has focussed on the down-dip and down-plunge extensions to the mineralisation.

In addition and subsequent to the end of the 2105 – 2016 reporting period the Company has embarked on a detailed and focussed geophysical program utilising both gravity and aeromagnetics to explore along strike from the known mineralisation and to gain a more comprehensive understanding of the regional structural controls that influencing the distribution of the mineralisation. It is envisaged that this work, combined with detailed geological mapping and sampling will provide additional exploration targets within the greater project area.

COMPETENT PERSONS STATEMENT

The information in this report that relates to exploration results, data collection and geological interpretation is based on information compiled by Steve Boda BSc (Hons), MAIG, MGSA, MSEG and Andrew Richards BSc (Hons), Dip Ed, MAusIMM, MAIG, MSEG, GAICD. Messrs Boda and Richards are both Members of Australian Institute of Geoscientists (AIG) and Mr Richards is also a Member of the Australasian Institute of Mining and Metallurgy (AusIMM).

Both Messrs Boda and Richards have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that is being undertaken to qualify as Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves' (JORC Code). Messrs Boda and Richards consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

| Appendix. Drill hole details – Plomosas drilling by CZL to June 30, 2016 | | | | | | | | |
|--|---------------|----------------|----------|--------|-------------|--------|-------------|-----------------|
| HoleID | Easting WGS84 | Northing WGS84 | Elev (m) | Dip | Azimuth WGS | RC (m) | Diamond (m) | Total Depth (m) |
| Tres Amigos horizon drilling | | | | | | | | |
| LV5DD001 | 476180.451 | 3216677.613 | 992.055 | -9.81 | 232.71 | 0.00 | 106.00 | 106.00 |
| LV5DD002 | 476180.642 | 3216677.749 | 990.883 | -65.78 | 237.04 | 0.00 | 100.00 | 100.00 |
| LV5DD003 | 476181.603 | 3216676.533 | 991.810 | -14.90 | 191.09 | 0.00 | 72.00 | 72.00 |
| LV5DD004 | 476176.705 | 3216682.597 | 992.077 | -10.37 | 291.07 | 0.00 | 110.00 | 110.00 |
| LV5DD005 | 476175.716 | 3216681.428 | 992.052 | -8.07 | 264.88 | 0.00 | 100.00 | 100.00 |
| LV5DD006 | 476185.674 | 3216680.526 | 995.212 | 67.99 | 57.80 | 0.00 | 60.00 | 60.00 |
| LV5DD007 | 476245.622 | 3216722.551 | 991.136 | -44.36 | 241.13 | 0.00 | 149.50 | 149.50 |
| LV5DD008 | 476246.339 | 3216722.606 | 990.985 | -68.08 | 230.03 | 0.00 | 164.40 | 164.40 |
| LV5DD009 | 476246.936 | 3216720.523 | 991.222 | -43.53 | 188.39 | 0.00 | 189.80 | 189.80 |
| LV5DD010 | 476245.169 | 3216723.758 | 991.461 | -45.11 | 270.67 | 0.00 | 110.00 | 110.00 |
| LV5DD011 | 476249.889 | 3216722.902 | 995.206 | 73.34 | 50.75 | 0.00 | 80.00 | 80.00 |
| LV5DD012 | 476292.500 | 3216663.500 | 992.500 | -30.00 | 235.00 | 0.00 | 185.80 | 185.80 |
| TRSRD001 | 476126.000 | 3216634.000 | 1167.072 | -65.00 | 235.00 | 99.50 | 76.80 | 176.30 |
| TRSRD002 | 476125.066 | 3216631.648 | 1167.072 | -80.00 | 235.00 | 27.50 | 118.55 | 146.05 |
| TRSRD003 | 476168.177 | 3216603.860 | 1138.345 | -65.00 | 235.00 | 141.80 | 26.20 | 168.00 |
| TRSRD004 | 476168.823 | 3216604.487 | 1138.285 | -80.00 | 235.00 | 99.50 | 110.45 | 209.95 |
| TRSRD005 | 476117.799 | 3216573.206 | 1142.767 | -55.00 | 235.00 | 63.00 | 0.00 | 63.00 |
| TRSRD006 | 476118.754 | 3216573.990 | 1142.630 | -75.00 | 235.00 | 93.90 | 65.65 | 159.55 |
| TRSRD007 | 476095.200 | 3216508.514 | 1160.126 | -50.00 | 235.00 | 120.00 | 0.00 | 120.00 |
| TRSRC008 | 476096.235 | 3216509.469 | 1160.061 | -70.00 | 235.00 | 99.00 | 0.00 | 99.00 |

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Appendix. Drill hole details – Plomosas drilling by CZL to June 30, 2016

| HoleID | Easting WGS84 | Northing WGS84 | Elev (m) | Dip | Azimuth WGS | RC (m) | Diamond (m) | Total Depth (m) |
|--|------------------|-------------------|----------|--------|----------------|---------------|-----------------|--------------------|
| TRSDD009 | 476309.000 | 3216320.000 | 1156.000 | -50.00 | 230.00 | 0.00 | 149.00 | 149.00 |
| TRSDD010 | 476309.000 | 3216320.000 | 1156.000 | -70.00 | 230.00 | 0.00 | 176.00 | 176.00 |
| TRSDD011 | 476309.000 | 3216320.000 | 1156.000 | -85.00 | 55.00 | 0.00 | 185.00 | 185.00 |
| TRSDD012 | 476179.218 | 3216644.987 | 1135.965 | -75.70 | 231.05 | 0.00 | 188.55 | 188.55 |
| TRSDD013 | 476178.808 | 3216644.706 | 1136.039 | -59.30 | 233.55 | 0.00 | 221.05 | 221.05 |
| TRSDD014 | 476244.254 | 3216652.249 | 1135.957 | -75.00 | 232.05 | 0.00 | 218.10 | 218.10 |
| TRSDD015 | 476244.005 | 3216651.948 | 1135.976 | -60.00 | 226.85 | 0.00 | 241.20 | 241.20 |
| TRSDD016 | 476227.966 | 3216675.777 | 1142.426 | -78.30 | 233.75 | 0.00 | 266.30 | 266.30 |
| TRSDD017 | 476135.975 | 3216678.743 | 1149.918 | -79.90 | 230.04 | 0.00 | 266.25 | 266.25 |
| TRSDD018 | 476134.729 | 3216677.070 | 1149.804 | -65.50 | 228.34 | 0.00 | 263.05 | 263.05 |
| Total | | | | | | 744.20 | 3,999.65 | 4,743.85 |
| Level 7 Drilling of sulphide mineralisation at depth | | | | | | | | |
| LV7DD001 | 476440.310 | 3217067.060 | 916.794 | -70.00 | 235.00 | 0.00 | 294.70 | 294.70 |
| LV7DD002 | 476440.310 | 3217067.060 | 916.794 | -35.00 | 235.00 | 0.00 | 96.75 | 96.75 |
| LV7DD003 | 476440.310 | 3217067.060 | 916.794 | -40.00 | 190.00 | 0.00 | 98.20 | 98.20 |
| LV7DD004 | 476440.310 | 3217067.060 | 916.794 | -40.00 | 290.00 | 0.00 | 81.90 | 81.90 |
| LV7DD005 | 476440.310 | 3217067.060 | 916.794 | -15.00 | 235.00 | 0.00 | 83.70 | 83.70 |
| LV7DD006 | 476440.310 | 3217067.060 | 916.794 | -55.00 | 235.00 | 0.00 | 156.05 | 156.05 |
| LV7DD007 | 476439.910 | 3217064.683 | 916.794 | -33.00 | 188.00 | 0.00 | 104.15 | 104.15 |
| LV7DD008 | 476439.055 | 3217064.373 | 916.794 | -40.00 | 206.00 | 0.00 | 73.50 | 73.50 |
| LV7DD009 | 476439.414 | 3217064.497 | 916.794 | -20.00 | 200.00 | 0.00 | 108.45 | 108.45 |
| LV7DD010 | 476436.464 | 3217067.013 | 916.794 | -10.00 | 270.00 | 0.00 | 109.50 | 109.50 |
| LV7DD011 | 476437.664 | 3217067.710 | 916.794 | -25.00 | 285.00 | 0.00 | 88.00 | 88.00 |
| LV7DD012 | 476438.485 | 3217064.163 | 916.794 | -20.00 | 213.00 | 0.00 | 88.90 | 88.90 |
| LV7DD013 | 476443.110 | 3217068.300 | 917.000 | 0.00 | 55.00 | 0.00 | 69.10 | 69.10 |
| LV7DD014 | 476443.110 | 3217068.300 | 917.000 | 0.00 | 130.00 | 0.00 | 70.05 | 70.05 |
| LV7DD015 | 476443.110 | 3217068.300 | 917.000 | 60.00 | 55.00 | 0.00 | 43.15 | 43.15 |
| LV7DD016 | 476443.110 | 3217068.300 | 917.000 | -65.00 | 55.00 | 0.00 | 83.75 | 83.75 |
| LV7DD017 | 476436.464 | 3217067.013 | 916.794 | -35.00 | 268.00 | 0.00 | 60.00 | 60.00 |
| LV7DD018 | 476436.464 | 3217067.013 | 916.794 | -16.00 | 257.00 | 0.00 | 62.15 | 62.15 |
| LV7DD019 | 476442.200 | 3217067.828 | 916.766 | -80.00 | 50.00 | 0.00 | 185.00 | 185.00 |
| LV7DD020 | 476337.120 | 3217167.660 | 915.100 | -15.00 | 235.00 | 0.00 | 47.95 | 47.95 |
| LV7DD021 | 476337.120 | 3217167.660 | 915.100 | -65.00 | 235.00 | 0.00 | 153.85 | 153.85 |
| LV7DD022 | 476343.000 | 3217171.000 | 915.400 | -65.00 | 055.00 | 0.00 | 52.05 | 52.05 |
| LV7023 | 476343.000 | 3217165.000 | 915.800 | -8.00 | 200.00 | 0.00 | 83.10 | 83.10 |
| LV7024 | 476340.830 | 3217164.600 | 915.800 | -28.00 | 174.00 | 0.00 | 51.65 | 51.65 |

MANAGING DIRECTOR'S REPORT

Appendix. Drill hole details – Plomosas drilling by CZL to June 30, 2016

| HoleID | Easting WGS84 | Northing WGS84 | Elev (m) | Dip | Azimuth WGS | RC (m) | Diamond (m) | Total Depth (m) |
|--------------|------------------|-------------------|----------|--------|----------------|-------------|-----------------|----------------------|
| LV7025 | 476340.800 | 3217165.010 | 916.500 | -8.00 | 171.00 | 0.00 | 46.50 | 46.50 (abandoned) |
| LV7026 | 476341.460 | 3217164.790 | 916.500 | -17.00 | 154.00 | 0.00 | 128.30 | 128.30 |
| LV7027 | 476335.300 | 3217172.700 | 916.800 | -1.00 | 264.00 | 0.00 | 55.70 | 55.70 |
| LV7028 | 476336.230 | 3217173.390 | 916.300 | -16.00 | 289.00 | 0.00 | 49.05 | 49.05 |
| LV7029 | 476336.430 | 3217173.480 | 916.800 | 0.00 | 292.00 | 0.00 | 80.45 | 80.45 |
| LV7030 | 476340.470 | 3217164.780 | 916.400 | -8.00 | 182.00 | 0.00 | 95.45 | 95.45 |
| LV7031 | 476341.050 | 3217164.876 | 916.130 | -21.00 | 157.83 | 0.00 | 46.95 | 46.95 |
| LV7032 | 476336.267 | 3217163.394 | 916.513 | -9.40 | 315.73 | 0.00 | 75.75 | 75.75 |
| Total | | | | | | 0.00 | 2,923.75 | 2,923.75 |

The Directors of Consolidated Zinc Limited present their report, together with the financial statements of the Group, being the Company and its controlled entity, for the financial year ended 30 June 2016.

DIRECTORS DURING THE FINANCIAL YEAR

- Mr Stephen Copulos
- Mr William Dix
- Mr Andrew Richards
- Mr Luis Rogelio Martinez Valles

COMPANY SECRETARY

- ## INFORMATION ABOUT THE DIRECTORS

Names

Particulars

Stephen Copulos
(Chairman)

Mr Copulos joined Consolidated Zinc as a Non-Executive Chairman and is the Company's major shareholder and financial supporter. Mr Copulos has over thirty five years 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 |
|----------------------------|----------------|---------------|
| Collins Foods Limited | April 2013 | October 2014 |
| Crusader Resources Limited | March 2013 | Current |
| Black Rock Mining Ltd | January 2015 | Current |
| Restaurant Brands Ltd | April 2016 | Current |

Will Dix
(Managing Director)

Mr Dix is a geologist with 20 years experience in base metal, uranium and gold exploration and mining. He holds a BSc and MSc (Geology) from Monash University and is a member of AusIMM.

In his previous roles, Mr Dix has been Managing Director of Fitzroy Resources and unlisted private mining ventures. He also spent 9 years with LionOre Mining International where he was a District Supervising Geologist in Western Australia. During his time with LionOre Mining International, Mr Dix was part of the team that discovered the Waterloo Nickel Mine and delineated the 2 million ounce Thunderbox Gold Project.

Mr Dix has a proven track record of successful project and team management and also has extensive experience in commercial activities including capital raisings, mergers, acquisitions and divestments.

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

DIRECTORS' REPORT

| | Name | Date Appointed | Date Resigned |
|---|---|-----------------|----------------|
| | BBX Minerals Limited | 10 October 2012 | Current |
| | Credo Resources Limited | 3 December 2010 | 21 June 2016 |
| | Fitzroy Resources Limited | 4 August 2010 | 8 May 2015 |
| Andrew Richards (Executive Director) | Mr Richards is a geologist with over 30 years experience in the international mining industry which included company management and project finance. He has worked at a senior level in both production and exploration over a wide variety of areas and commodities and also 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 | 4 July 2014 | Current |
| | Southern Hemisphere Mining Ltd | 1 December 2013 | 1 May 2015 |
| | Intermet Resources Ltd | 17 January 2013 | 9 October 2014 |
| | Alcyone Resources Ltd | 6 May 2011 | 18 March 2013 |
| Luis Rogelio Martinez Valles (Non-Executive Director) | Mr Martinez is a mining entrepreneur with 40 years experience in industrial minerals, base and precious metals. He holds an Industrial Engineer qualification from Chihuahuas Tech, with a Masters in Business Administration from Nuevo León University, and a Member of the Mining Association of Chihuahua. | | |
| | Mr Martinez has a proven record of successfully operating in different mine projects such as barite, silica sand, lead zinc, gold and silver, from exploration to exploitation and sale of ores and concentrates, from startups, to mill installation. Mr Martinez has a background in dealings with local governments as well as experience in negotiations and diligences to be arranged in all areas involving mining including but not limited to mergers and joint ventures. | | |
| | Other than disclosed above, Luis has not held directorships with any other ASX-listed companies over the last three years. | | |

PRINCIPAL ACTIVITIES

Consolidated Zinc Limited is an Australian based, diversified minerals Exploration Company holding projects in Mexico, Australia, and Sweden covering a commodity mix that includes zinc, lead, silver, uranium and copper.

The Company's principal activities are to acquire exploration tenements holding potential for high demand mineral commodities, explore those tenements, discover economic mineral deposits and proceed to upgrade and develop those deposits into economically viable mining projects.

Consolidated Zinc has refined its corporate strategy and will focus primarily on the Plomosas Project in Mexico where the directors believe the company has significant potential to become a producer of high grade Zinc in the short term. This may lead to significant cashflow and will transform the company within a short space of time from an explorer to a producer.

DIRECTORS' REPORT

REVIEW AND RESULTS OF OPERATIONS AND ACTIVITIES

RESULTS

The loss of the Group after providing for income tax amounted to \$1,827,856 (2015: \$2,439,767).

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.

BUSINESS OVERVIEW

During the period, the Company's key focus turned to the high grade Plomosas zinc mine in Mexico which was acquired in June 2015 after an extensive due diligence process. The Plomosas project comprises high grade zinc and lead mineralisation of approximately 15% - 25% combined, with significant silver credits of up to two ounces per tonne.

The mine had been worked by mechanised mining methods between 1943 and 1973 by Asarco and smaller scale mining subsequently prior to its acquisition by the Company. Geological review and drilling has confirmed the prospectively of the project for high grade zinc, lead and silver mineralisation to continue at depth immediately below the existing underground workings. Resource definition drilling is ongoing to confirm and better define the mineralisation with a view to estimating the first JORC compliant resource by the end of calendar 2016.

MEXICO

The Company has interests in 11, Exploration and Exploitation Concessions in northern Mexico totalling 3,019 ha in area. The concessions cover an operating extremely high grade zinc-lead-silver underground mine (Plomosas mine) which has an extensive history of exploration and development since 1943. Good potential exists to define additional resources immediately below and accessible from current mine workings, along strike and in the footwall of the main mineralised limestone rich horizon.

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.

FUNDING

On 14 October 2015, the Company announced a \$1,000,000 convertible loan facility with one of the Company's major Shareholders, the Copulos Group that the Company may elect to convert to equity at \$0.045 per share with a 1 for 2 option (exercisable at \$0.06, expiring 31 December 2018). The key terms of the convertible notes are:

- \$1,000,000 facility with \$500,000 available immediately:
- The note has a maturity date of 12 months from establishment:
- The Company will pay a fixed fee of 3,000,000 fully paid shares, no additional interest or fees will be paid by the Company to the Copulos Group;
- The loan can convert to shares at the Company's next capital raising: and
- Conversion of the notes shall be subject to compliance with section 606 of the Corporations Act

On 22 December 2015, the Company announced that it had closed a placement of 28,888,889 fully paid ordinary shares at \$0.045 per share with a free 1 for 2 option (exercisable at \$0.06, expiring 31 December 2018) to raise \$1.3m. The placement was completed in February 2016. A \$2.2m drawdown agreement, subject to due diligence, was also executed with a Singapore based commodity trading group.

DIRECTORS' REPORT

On 22 March 2016, the Company announced a funding package of \$550,000 to including a placement of 1,000,000 shares and 500,000 Options (exercisable at \$0.06, expiring 31 December 2018) to a sophisticated investor to raise \$45,000. In addition two of the Company's major Shareholders, the Copulos Group and the Retzos Group agreed to provide \$305,000 by way of convertible note facilities that will convert to equity at \$0.045 per share with a 1 for 2 option (exercisable at \$0.06, expiring 31 December 2018). The key terms of the convertible notes are:

- The notes have a maturity date of 12 months from establishment;
- Interest and fees on the notes will be paid by an issue of 662,000 shares; and
- Conversion of the notes shall be subject to compliance with section 606 of the Corporations Act

On 6 May 2016, the Company announced that it had closed a placement of 162,500,000 fully paid ordinary shares at \$0.04 per share with a free 1 for 2 option (exercisable at \$0.06, expiring 31 December 2018) to raise \$6.5m. The placement was completed in 2 tranches between May and July 2016.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The state of affairs of the Group was not affected by any significant changes during the financial period not otherwise stated in the report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the Consolidated Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

EVENTS AFTER THE REPORTING DATE

The Company issued the following securities subsequent to the end of the reporting date:

- 7,300,000 ordinary shares and 3,650,000 Options (exercisable \$0.06, expiring 31 December 2018) were issued to sophisticated investors to raise \$292,000 before costs
- 1,174 Options were exercised raising \$117.
- 11,848,222 shares and 5,611,111 Options (exercisable \$0.06, expiring 31 December 2018) were issued for conversion and interest payable of debt facilities provided by the Copulos Group (\$305,000) and the Retzos Group (\$200,000)
- 23,572,000 Options (exercisable \$0.06, expiring 31 December 2018) were issued for advisory fees.
- 23,348,968 Options (exercisable \$0.10, expiring 31 July 2016) expired on 31 July 2016

On 27 September 2016 the Company announced it had executed an agreement with the vendors of the Plomosas Zinc project for the purchase of an additional 39% of the shares in Latin American Zinc S.A.P.I. de C.V, the company that owns 100% of the high grade Plomosas Zinc-Lead-Silver mine from Retec Guarú S.A. de C.V, the Company's Mexican partner. Under the terms of this re-negotiated agreement, Consolidated Zinc group will pay \$500,000 and US\$800,000 to increase its ownership to 80%, increased from \$750,000 in cash and \$1,700,000 in CZL shares, under the original agreement.

CONSOLIDATED ZINC LIMITED

ABN 27 118 554 359

DIRECTORS' REPORT

INFORMATION ON DIRECTORS

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

| Current Director | Number of ordinary shares | Number of options granted | Number of options vested | Number of options unvested | Expiry date | Exercise price | Performance Rights |
|------------------------------|---------------------------|---------------------------|--------------------------|----------------------------|-------------|----------------|--------------------|
| Stephen Copulos | 82,367,332 | - | - | - | - | - | - |
| - Unlisted Options | - | 15,613,889 | 15,613,889 | - | 31 Dec 2018 | \$0.06 | - |
| - Performance Rights | - | - | - | - | - | - | 1,500,000 |
| Will Dix | 1,625,000 | - | - | - | - | - | - |
| - Unlisted Options | - | 5,000,000 | - | 5,000,000 | 5 June 2020 | \$0.06 | - |
| - Performance Rights | - | - | - | - | - | - | 2,000,000 |
| Andrew Richards | 1,680,000 | - | - | - | - | - | - |
| - Unlisted Options | - | 2,500,000 | - | 2,500,000 | 5 June 2020 | \$0.06 | - |
| - Performance Rights | - | - | - | - | - | - | 1,500,000 |
| Luis Rogelio Martinez Valles | 25,000,000 | - | - | - | - | - | - |
| - Unlisted Options | - | - | - | - | - | - | - |
| - Performance Rights | - | - | - | - | - | - | - |

MEETINGS OF DIRECTORS

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

| | Directors' Meetings | |
|------------------------------|---------------------------|-----------------|
| | Number eligible to attend | Number Attended |
| Directors | | |
| Stephen Copulos | 9 | 9 |
| William Dix | 9 | 9 |
| Andrew Richards | 9 | 9 |
| Luis Rogelio Martinez Valles | 9 | - |

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 year, 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 year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor. During the financial year, 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) bonus - executive directors and nominated senior managers are eligible to participate in a bonus or profit participation plan if deemed appropriate;
- c) long term incentives - executive directors may participate in share option schemes with the prior approval of shareholders. Executives may also participate in employee share option schemes, with any option 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 to executives outside of approved employee option 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.

Remuneration of other executives consists of the following:

- a) salary - senior executives receive a sum payable monthly in cash;
- b) bonus - each executive is eligible to participate in a bonus or profit participation plan if deemed appropriate;
- c) long term incentives - each senior executive may, where appropriate, participate in share option schemes which have been approved by shareholders; and
- d) other benefits - senior executive are eligible to participate in superannuation schemes and other appropriate additional benefits.

Non-executive Remuneration

Shareholders approve the maximum aggregate remuneration for non-executive directors. The Remuneration Committee recommends the actual payments to directors and the Board is responsible for ratifying any recommendations, if appropriate. The maximum aggregate remuneration approved for non-executive directors is currently \$150,000.

DIRECTORS' REPORT

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 of the Group during or since the end of the financial year:

| | |
|----------------------------------|---|
| Mr. S. Copulos | Chairman (Non-Executive) |
| Mr. William Dix | Managing Director |
| Mr. Andrew Richards | Director (Executive) |
| Mr. Luis Rogelio Martinez Valles | Director (Non-Executive) |
| Mr. Andrew Beigel | Company Secretary – appointed 30 October 2015 |
| Mr. Chris Watts | Company Secretary – resigned 30 October 2015 |

Details of Remuneration for year ended 30 June 2016

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

2016

| Key Management Person | Short-term Benefits | | | | Post-employment Benefits | Other Long-term Benefits | Share based Payment | | Total | Total Remuneration Represented by Options | Performance Related |
|------------------------------|----------------------------|-------------------|------------------|-------|--------------------------|--------------------------|-------------------------|---------------|---------|---|---------------------|
| | Cash, salary & commissions | Cash profit share | Non-cash benefit | Other | Super-annuation | Other | Performance Rights (ii) | Options (iii) | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Stephen Copulos | 81,909 | - | - | - | - | - | 19,429 | - | 101,338 | - | 19 |
| William Dix | 219,996 | - | - | - | - | - | 25,905 | 31,674 | 277,575 | 11 | 9 |
| Andrew Richards | 91,667 | - | - | - | - | - | 19,429 | 15,837 | 126,933 | 12 | 15 |
| Luis Rogelio Martinez Valles | 7,500 | - | - | - | - | - | - | - | 7,500 | - | - |
| Andrew Beigel | 36,530 | - | - | - | 3,470 | - | - | - | 40,000 | - | - |
| Chris Watts | 40,000 | - | - | - | - | - | - | - | 40,000 | - | - |
| | 477,602 | - | - | - | 3,470 | - | 64,763 | 47,511 | 593,346 | | |

CONSOLIDATED ZINC LIMITED

ABN 27 118 554 359

DIRECTORS' REPORT

2015

| Key Management Person | Short-term Benefits | | | | Post-employment Benefits | Other Long-term Benefits | Share based Payment | | Total | Total Remuneration Represented by Options | Performance Related |
|------------------------------|----------------------------|-------------------|------------------|-------|--------------------------|--------------------------|---------------------|---------|---------|---|---------------------|
| | Cash, salary & commissions | Cash profit share | Non-cash benefit | Other | Super-annuation | Other | Equity (i) | Options | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Stephen Copulos | 8,548 | - | - | - | - | - | - | - | 8,548 | - | - |
| William Dix | 31,533 | - | - | - | - | - | 40,000 | - | 71,533 | - | - |
| Andrew Richards | 29,166 | - | - | - | - | - | 40,000 | - | 69,166 | - | - |
| Luis Rogelio Martinez Valles | - | - | - | - | - | - | - | - | - | - | - |
| Martin Blakeman | 36,000 | - | - | - | - | - | 1,576 | - | 37,576 | - | - |
| Eric de Mori | 18,000 | - | - | - | - | - | 522 | - | 18,522 | - | - |
| Chris Watts ³ | 42,000 | - | - | - | - | - | - | - | 42,000 | - | - |
| | 165,247 | - | - | - | - | - | 82,098 | - | 247,345 | | |

(i) Directors received shares in lieu of fees during the year.

(ii) Directors received performance rights.

(iii) Directors received incentive options.

Details of Shares Held by Key Management Personnel

2016

| Key Management Person | Balance 1.7.2015 | Received as Compensation | On Appointment | Conversion of loan/notes ¹ | Acquired | Balance on Resignation | Balance 30.6.2016 |
|------------------------------|------------------|--------------------------|----------------|---------------------------------------|------------|------------------------|-------------------|
| Stephen Copulos | 41,739,554 | - | - | - | 31,450,000 | - | 73,189,554 |
| William Dix | 1,250,000 | 375,000 | - | - | - | - | 1,625,000 |
| Andrew Richards | 1,225,000 | - | - | - | 455,000 | - | 1,680,000 |
| Luis Rogelio Martinez Valles | 25,000,000 | - | - | - | - | - | 25,000,000 |
| | 69,214,554 | 375,000 | - | - | 31,905,000 | - | 101,494,554 |

2015

| Key Management Person | Balance 1.7.2014 | Received as Compensation | On Appointment | Conversion of loan/notes ¹ | Acquired | Balance on Resignation | Balance 30.6.2015 |
|------------------------------|------------------|--------------------------|----------------|---------------------------------------|--------------------------|------------------------|-------------------|
| Stephen Copulos | - | - | 14,809,554 | 21,930,000 | 5,000,000 ³ | - | 41,739,554 |
| William Dix | - | 625,000 | - | - | 625,000 | - | 1,250,000 |
| Andrew Richards | - | 1,000,000 | - | - | 225,000 | - | 1,225,000 |
| Luis Rogelio Martinez Valles | - | - | - | - | 25,000,000 ³ | - | 25,000,000 |
| Martin Blakeman ² | 23,429,138 | 18,125,000 | - | 98,125,000 | 105,138,048 ⁵ | (244,817,186) | - |
| Eric de Mori ² | 2,222,223 | 6,000,000 | - | 9,375,000 | - | (17,597,223) | - |
| Chris Watts | - | - | - | - | - | - | - |
| Winton Willesee ² | 37,691,667 | - | - | - | - | (37,691,667) | - |
| | 63,343,028 | 25,750,000 | 14,809,554 | 129,430,000 | 135,988,048 | (300,106,076) | 69,214,554 |

CONSOLIDATED ZINC LIMITED

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DIRECTORS' REPORT

Details of Options Held by Key Management Personnel

2016

| Key Management Person | Balance 1.7.2015 | Granted as Compensation | Conversion of loan/notes ¹ | Net Change Other | Balance 30.6.2016 | Total Vested 30.6.2016 | Total Exercisable 30.6.2016 | Total Unexercisable 30.6.2016 |
|------------------------------|------------------|-------------------------|---------------------------------------|------------------|-------------------|------------------------|-----------------------------|-------------------------------|
| Stephen Copulos | 5,450,000 | - | - | 12,225,000 | 17,675,000 | 17,675,000 | 17,675,000 | - |
| William Dix | 5,000,000 | - | - | - | 5,000,000 | - | - | 5,000,000 |
| Andrew Richards | 2,500,000 | - | - | - | 2,500,000 | - | - | 2,500,000 |
| Luis Rogelio Martinez Valles | - | - | - | - | - | - | - | - |
| | 12,950,000 | - | - | 12,225,000 | 25,175,000 | 17,675,000 | 17,675,000 | 7,500,000 |

2015

| Key Management Person | Balance 1.7.2014 | Granted as Compensation | Conversion of loan/notes ¹ | Net Change Other | Balance 30.6.2015 | Total Vested 30.6.2015 | Total Exercisable 30.6.2015 | Total Unexercisable 30.6.2015 |
|------------------------------|------------------|-------------------------|---------------------------------------|------------------------------|-------------------|------------------------|-----------------------------|-------------------------------|
| Stephen Copulos | - | - | - | 5,450,000 ¹ | 5,450,000 | 5,450,000 | 5,450,000 | - |
| William Dix | - | 5,000,000 | - | - | 5,000,000 | - | - | 5,000,000 |
| Andrew Richards | - | 2,500,000 | - | - | 2,500,000 | - | - | 2,500,000 |
| Luis Rogelio Martinez Valles | - | - | - | - | - | - | - | - |
| Martin Blakeman ² | 7,000,000 | 9,062,500 | 98,125,000 | (114,187,500) ^{2,3} | - | - | - | - |
| Eric de Mori ² | 3,000,000 | 3,000,000 | 9,375,000 | (15,375,000) ⁶ | - | - | - | - |
| Chris Watts | - | - | - | - | - | - | - | - |
| Winton Willesee ² | 37,375,000 | - | - | (37,375,000) ⁶ | - | - | - | - |
| | 47,375,000 | 19,562,500 | 107,500,000 | (161,487,500) | 12,950,000 | 5,450,000 | 5,450,000 | 7,500,000 |

No options were exercised during 2015 and 2016

¹ Holding on appointment

² Includes non-renounceable issue of shares and options

³ Balance on resignation

Options issued as part of remuneration

7,500,000 Director Incentive Options were approved at the General Meeting held on 5 June 2015 at \$0.06 each expiring 5 June 2015 that only vest upon the achievement of certain performance milestones, as follows:

- Mr Will Dix – 5,000,000 Options
- Mr Andrew Richards – 2,500,000 Options

DIRECTORS' REPORT

The vesting milestones are as follows:

| Options | Director | Milestone |
|-----------|-----------------|--|
| 1,250,000 | Will Dix | - Exercisable with 5 years from their date of issue upon definition of a JORC compliant resources for Plomosas Project of at least 2 million tonnes |
| 1,250,000 | Andrew Richards | |
| 1,250,000 | Will Dix | - Exercisable with 5 years from their date of issue upon successful completion of Feasibility Study and financing of the Plomosas Project |
| 1,250,000 | Will Dix | - Exercisable with 5 years from their date of issue upon first 6 months commercial production from the Plomosas Project |
| 1,250,000 | Andrew Richards | |
| 1,250,000 | Will Dix | - Exercisable with 5 years from their date of issue upon completion of 12 months continuous and profitable mining operations from the Plomosas Project |

If for whatever reason employment is ceased with the Company, any options issued but not capable of vesting shall lapse and be cancelled as at that date.

These options were valued using the Black and Scholes option valuation methodology taking into account the terms and conditions upon which the options were granted. Details of the assumptions used in the valuation of these options issued are as follows:

| Item | Advisor Options | Director Options |
|---------------------------|-----------------|------------------|
| Number of options | 4,000,000 | 7,500,000 |
| Exercise price (\$) | 0.06 | 0.06 |
| Valuation (grant) date | 5 August 2015 | 5 June 2015 |
| Expiry date | 20 July 2018 | 5 June 2020 |
| Expiration period (years) | 2.96 | 5.00 |
| Vesting date | nil | 5 June 2020 |
| Exercise conditions | nil | nil |
| Value | \$0.0226 | \$0.0296 |

Performance Rights

A Total of 5,000,000 Performance Rights Options were issued to the Directors on approval on 25 November 2015 as follows:

- Mr Will Dix – 2,000,000 Performance Rights;
- Mr Stephen Copulos – 1,500,000 Performance Rights; and
- Mr Andrew Richards – 1,500,000 Performance Rights.

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

DIRECTORS' REPORT

The 5,000,000 Performance Rights are to be granted as follows:

- Mr Will Dix
 1. 666,667 Tranche 1 Performance Rights.
 2. 666,667 Tranche 2 Performance Rights.
 3. 666,666 Tranche 3 Performance Rights.
- Mr Stephen Copulos
 1. 500,000 Tranche 1 Performance Rights.
 2. 500,000 Tranche 2 Performance Rights.
 3. 500,000 Tranche 3 Performance Rights.
- Mr Andrew Richards
 1. 500,000 Tranche 1 Performance Rights.
 2. 500,000 Tranche 2 Performance Rights.
 3. 500,000 Tranche 3 Performance Rights.

The Performance Rights will be granted in three tranches with the vesting conditions and milestone dates set out below:

| Tranche | Vesting Condition | Milestone Date | Value per Right |
|---------------------------------|---|-------------------|-----------------|
| Tranche 1 Performance Rights | The company announces a JORC Code compliant resource containing not less than 2,000,000 tonnes of mineralisation at combined grade of at least 17% (Zn+Pb). | 30 June 2017 | \$0.040 |
| Tranche 2 Performance Rights | The Company has operated stage 1 of commercial production at its Plomosas Project | 30 September 2016 | \$0.040 |
| Tranche 3 Performance Rights | The 10 day volume weighted average price of Shares is equal to or greater than \$0.10 for a period of 10 consecutive trading days. | 30 June 2018 | \$0.025 |

The Performance Rights will have the following expiry dates:

- The Tranche 1 Performance Rights will expire on 30 June 2017.
- The Tranche 2 Performance Rights will expire on 30 September 2016
- The Tranche 3 Performance Rights will expire on 30 June 2018.

Shares Issued on Exercise of Compensation Options

No options granted as compensation in prior years were exercised through the year or the previous year.

Employment contracts of directors and senior executives

The employment of the Non-Executive Chairman, Mr Stephen Copulos, is under a letter of appointment and is on an ongoing basis unless he resigns from office or otherwise ceases to hold office, if not re-elected at any annual general meeting at which he is offered for re-election, or a disqualifying event prescribed in the constitution occurs.

The employment of the Managing Director, Mr William Dix and Executive Director, Mr Andrew Richards, are under service agreements. The terms are for a period of 3 years and in the event their employment is terminated, they are entitled to 3 months notice. Within 4 months before the end of the term of employment, the Company has the right to seek an extension of the term by an additional 3 years.

The employment of the Company Secretary, Mr Andrew Beigel, is under a letter of appointment and is on an ongoing basis unless he resigns from office or otherwise ceases to hold office.

Consolidated entity performance and link to remuneration

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

DIRECTORS' REPORT

Voting and comments made at the Company's 2015 Annual General Meeting ("AGM")

The 2015 Remuneration Report was voted for without any commentary or discussion at the 2015 AGM, on a show of hands with proxy votes for of 12,246,660, nil votes against with 33,763,958 votes abstaining.

[End of Remuneration Report - Audited]

OPTIONS

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

| Grant Date | Date of Expiry | Exercise Price | Number Under Option |
|--------------|------------------|----------------|---------------------|
| 6 Mar 2014 | 6 Mar 2017 | \$0.20 | 500,000 |
| Various | 6 Mar 2018 | \$0.064 | 22,437,500 |
| 20 July 2018 | 20 July 2018 | \$0.06 | 4,000,000 |
| Various | 31 December 2018 | \$0.06 | 126,172,002 |
| 5 June 2015 | 5 June 2020 | \$0.06 | 7,500,000 |
| Total | | | 160,609,502 |

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 year.

NON-AUDIT SERVICES

No non-audit services were performed during the year.

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

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

Auditors

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

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and is included within this annual report.

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

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



WILLIAM DIX
Managing Director

DATED this 30th day of September 2016

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Consolidated Zinc Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.

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

BUTLER SETTINERI (AUDIT) PTY LTD



LUCY P GARDNER
Director

Perth
Date: 30 September 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR YEAR ENDING 30 JUNE 2016

| | Note | 2016 \$ | 2015 \$ |
|--|------|-------------|-------------|
| Revenue | | | |
| Interest revenue | | 3,156 | 8,142 |
| Unrealised gain / (loss) on financial assets | | - | 800 |
| Other revenue | | - | 3,500 |
| Expenses | | | |
| Administrative expenses | | (109,332) | (108,817) |
| Consultancy and legal expenses | | (285,624) | (179,341) |
| Compliance and regulatory expenses | | (131,325) | (126,373) |
| Communication expenses | | (5,010) | (6,662) |
| Depreciation and amortisation | | (6,904) | (624) |
| Director and employee related expenses | | (441,085) | (302,827) |
| Occupancy related expenses | | (11,318) | (42,701) |
| Exploration expenditure | | (16,498) | (5,746) |
| Travel and accommodation related expenses | | (171,612) | (156,089) |
| Exploration expenditure written off | | (300,001) | (1,475,073) |
| Impairment of assets held for sale | | (3,000) | - |
| Interest and finance expense | | (140,602) | (47,956) |
| Foreign exchange losses | | (83,044) | - |
| Equity based payment expense | | (125,657) | - |
| Loss before income tax expense | | (1,827,856) | (2,439,767) |
| Income tax expense | 4 | - | - |
| Loss for the year after income tax expense | | (1,827,856) | (2,439,767) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Translation difference on foreign exchange | | (457,216) | 59,736 |
| Total comprehensive loss for the year | | (2,285,072) | (2,380,031) |
| Net loss is attributable: | | | |
| Owners of Consolidated Zinc Limited | | (1,742,218) | (2,439,767) |
| Non-controlling interests | | (85,638) | - |
| Net loss for the period | | (1,827,856) | (2,439,767) |
| Total comprehensive loss is attributable to: | | | |
| Owners of Consolidated Zinc Limited | | (2,206,791) | (2,380,031) |
| Non-controlling interests | | (78,281) | - |
| Net loss for the period | | (2,285,072) | (2,380,031) |
| Earnings per share | | | |
| Basic and diluted loss per share (cents) | 5 | (0.73) | (3.89) |

The accompanying notes form part of these financial statements

CONSOLIDATED ZINC LIMITED

ABN 27 118 554 359

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

| | Note | 2016 \$ | 2015 \$ |
|--|------|-------------------|------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 4,582,756 | 1,802,357 |
| Trade and other receivables | 8 | 226,750 | 60,380 |
| Financial assets | 7 | 2,800 | 6,509 |
| TOTAL CURRENT ASSETS | | 4,812,306 | 1,869,246 |
| NON CURRENT ASSETS | | | |
| Trade and other receivables | 8 | 624,532 | 78,513 |
| Plant and equipment | 10 | 28,541 | - |
| Exploration expenditure | 11 | 8,078,016 | 4,314,153 |
| TOTAL NON CURRENT ASSETS | | 8,731,089 | 4,392,666 |
| TOTAL ASSETS | | 13,543,395 | 6,261,912 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | 654,030 | 249,057 |
| Borrowings | 13 | 1,505,000 | - |
| TOTAL CURRENT LIABILITIES | | 2,159,030 | 249,057 |
| TOTAL LIABILITIES | | 2,159,030 | 249,057 |
| NET ASSETS | | 11,384,365 | 6,012,855 |
| EQUITY | | | |
| Issued capital | 14 | 26,719,651 | 19,188,726 |
| Reserves | 15 | 233,793 | 572,711 |
| Accumulated losses | | (15,490,798) | (13,748,582) |
| Total capital and reserves attributable to the owners of Consolidated Zinc Limited. | | 11,462,646 | 6,012,855 |
| Non-controlling Interests | | (78,281) | - |
| TOTAL EQUITY | | 11,384,365 | 6,012,855 |

The accompanying notes form part of these financial accounts

CONSOLIDATED ZINC LIMITED

ABN 27 118 554 359

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEAR ENDING 30 JUNE 2016

| | Note | 2016 \$ | 2015 \$ |
|---|------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments to suppliers and employees | | (1,309,111) | (889,215) |
| Interest received | | 3,156 | 8,142 |
| Interest paid | | - | (7,956) |
| Payment for exploration expenditure | | - | (2,250,836) |
| Net cash used in by operating activities | 18 | <u>(1,305,955)</u> | <u>(3,139,865)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Refund of bond | | - | 13,364 |
| Payment for investments | | - | (350,000) |
| Payment for property, plant and equipment | | (35,226) | - |
| Payment for exploration expenditure | | (4,521,298) | - |
| Net cash used in investing activities | | <u>(4,556,524)</u> | <u>(336,636)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | 7,624,749 | 4,016,574 |
| Proceeds from borrowings | | 1,505,000 | 1,250,000 |
| Payment of capital raising expenses | | (403,824) | - |
| Loans provided | | - | (78,513) |
| Repayments of borrowings | | - | (25,000) |
| Net increase in provided by financing activities | | <u>8,725,925</u> | <u>5,163,061</u> |
| Net increase in cash held | | 2,863,446 | 1,686,560 |
| Foreign currency translation | | (83,047) | - |
| Cash and cash equivalents at the beginning of the financial year | | 1,802,357 | 115,797 |
| Cash and cash equivalents at the end of the financial year | 18 | <u>4,582,756</u> | <u>1,802,357</u> |

The accompanying notes form part of these financial accounts

CONSOLIDATED ZINC LIMITED

ABN 27 118 554 359

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDING 30 JUNE 2016

| Note | Issued Capital \$ | Accumulated Losses \$ | Option Reserve \$ | Foreign Currency Translation Reserve \$ | Owners of The Parent \$ | Non Controlling Interest \$ | Total \$ |
|--|-------------------------|-----------------------------|-------------------------|--|-------------------------------|-----------------------------------|------------------|
| Balance at 1 July 2014 (Restated) | 12,262,739 | (11,308,813) | 218,005 | 44,162 | 1,216,093 | - | 1,216,093 |
| Loss for the year after income tax | - | (2,439,767) | - | - | (2,439,767) | - | (2,439,767) |
| Other comprehensive (loss) for the year net of tax | - | - | - | 59,736 | 59,736 | - | 59,736 |
| Total comprehensive loss for the year | - | (2,439,767) | - | 59,736 | (2,380,031) | - | (2,380,031) |
| Transactions with owners | | | | | | | |
| Shares issued during the year (net of capital raising costs) | 5,363,987 | - | - | - | 5,363,987 | - | 5,363,987 |
| Convertible notes/loans converted | 1,562,000 | - | - | - | 1,562,000 | - | 1,562,000 |
| Options issued - Share based payment | - | - | 250,806 | - | 250,806 | - | 250,806 |
| Balance at 30 June 2015 | 19,188,726 | (13,748,580) | 468,811 | 103,898 | 6,012,855 | - | 6,012,855 |

The accompanying notes form part of these financial accounts

CONSOLIDATED ZINC LIMITED

ABN 27 118 554 359

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDING 30 JUNE 2016

| Note | Issued Capital \$ | Accumulated Losses \$ | Option Reserve \$ | Foreign Currency Translation Reserve \$ | Owners of The Parent \$ | Non Controlling Interest \$ | Total \$ |
|--|-------------------------|-----------------------------|-------------------------|--|-------------------------------|-----------------------------------|-------------------|
| Balance at 1 July 2015 | 19,188,726 | (13,748,580) | 468,811 | 103,898 | 6,012,855 | - | 6,012,855 |
| Loss for the year after income tax | - | (1,742,218) | - | - | (1,742,218) | (85,638) | (1,827,856) |
| Other comprehensive (loss) for the year net of tax | - | - | - | (464,573) | (464,573) | 7,357 | (457,216) |
| Total comprehensive loss for the year | - | (1,742,218) | - | (464,573) | (2,206,791) | (78,281) | (2,285,072) |
| Transactions with owners | | | | | | | |
| Shares issued during the year (net of capital raising costs) | 7,530,925 | - | - | - | 7,530,925 | - | 7,530,925 |
| Performance rights | - | - | 16,152 | - | 16,152 | - | 16,152 |
| Options issued - Share based payment | - | - | 109,505 | - | 109,505 | - | 109,505 |
| Balance at 30 June 2016 | 26,719,651 | (15,490,798) | 594,468 | (360,675) | 11,462,646 | (78,281) | 11,384,365 |

The accompanying notes form part of these financial accounts

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial statements were authorised for issue on 30 September 2016 by the directors of the Company.

Basis of Preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by IASB. 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.

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.

As disclosed in the financial statements, the consolidated entity incurred losses of \$1,827,856 (2015: \$2,439,767) and the consolidated entity had net cash outflows from operating activities of \$1,305,955 (2015: \$3,139,865) for the year ended 30 June 2016. As at that date, the consolidated entity had net current assets of \$2,653,276 (2015: \$1,620,189).

The Directors believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report, after consideration of the following factors:

- The company has the ability to issue additional shares in accordance with the Corporations Act 2001 to raise further working capital and has been successful in doing this previously, as evidenced by the successful capital raisings in the financial year ended 30 June 2016;
- The directors have prepared a budget until 30 September 2017 that shows significant discretionary expenditure which can be reduced to match timing of inflows from funding alternatives.

a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Consolidated Zinc Limited as at 30 June 2016 and the results of all subsidiaries for the year then ended. Consolidated Zinc Limited and its subsidiaries together are referred to in these financial statements as the 'group'.

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

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016**

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 year 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 year 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

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

Depreciation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

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

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

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

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

d) Exploration and Development Expenditure

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

Costs of site restoration are provided for over the life of the project from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

e) Leases

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

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

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016****f) Financial Instruments****Recognition and Initial Measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

i. Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

iv. Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any re-measurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016****v. Financial Liabilities**

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. A financial asset or a Group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

g) 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 annually for goodwill and intangible assets with indefinite lives.

h) 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.

i) Employee Benefits*Short term employee benefits*

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

Long term employee benefits

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

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.

j) Equity-settled compensation

The entity operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

k) Provisions

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

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

l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

n) Borrowings

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

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

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

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

o) Revenue

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

All revenue is stated net of the amount of goods and services tax (GST).

p) Borrowing costs

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

q) 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.

r) Dividends

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

s) Earnings per share

Basic earnings per share

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

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.

t) 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.

u) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO").

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016**

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

v) Comparative Figures

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

w) Critical Accounting Estimates and Judgments

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

Environmental Issues

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

Taxation

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

Key Judgements – Deferred exploration and evaluation expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at reporting date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in note 1(d).

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 22.

x) Operating segments

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

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

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

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 year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

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

Group companies

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

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

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

z) Adoption of New and Revised Standards

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

In the current year, the Consolidated Entity has applied a number of amendments to AASBs and a new interpretation issued by the Australian Accounting Standards Board (AASB) that is mandatorily effective from an accounting period on or after 1 July 2015.

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

Standards and Interpretations in issue not yet effective

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

The Consolidated Entity does not anticipate that there will be a material effect on the financial statements from the adoption of these standards.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|--|---|
| AASB 9 'Financial Instruments', and the relevant amending standards | 1 January 2018 | 30 June 2019 |
| AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' | 1 January 2017 | 30 June 2018 |
| AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations' | 1 January 2016 | 30 June 2017 |
| AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation' | 1 January 2016 | 30 June 2017 |
| AASB 2014-6 'Amendments to Australian Accounting Standards – Agriculture: Bearer Plants' | 1 January 2016 | 30 June 2017 |
| AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements' | 1 January 2016 | 30 June 2017 |
| AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' | 1 January 2016 | 30 June 2017 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

| | | |
|--|----------------|--------------|
| AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle' | 1 January 2016 | 30 June 2017 |
| AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101' | 1 January 2016 | 30 June 2017 |
| AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception' | 1 January 2016 | 30 June 2017 |
| AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs' | 1 January 2016 | 30 June 2017 |
| AASB 16 'Leases –Accounting for leases' | 1 January 2019 | 30 June 2020 |
| AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses' | 1 January 2017 | 30 June 2018 |
| AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107' | 1 January 2017 | 30 June 2018 |

NOTE 2. KEY MANAGEMENT PERSONNEL COMPENSATION

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

| | |
|----------------------------------|---|
| Mr. S. Copulos | Chairman (Non-Executive) |
| Mr. William Dix | Managing Director |
| Mr. Andrew Richards | Director (Executive) |
| Mr. Luis Rogelio Martinez Valles | Director (Non-Executive) |
| Mr. Andrew Beigel | Company Secretary – appointed 30 October 2015 |
| Mr. Chris Watts | Company Secretary – resigned 30 October 2015 |

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

| | 2016 \$ | 2015 \$ |
|----------------------|----------------|----------------|
| Short terms benefits | 481,072 | 165,247 |
| Share based payments | 112,247 | 82,098 |
| | <u>593,346</u> | <u>247,345</u> |

Other transactions with key management personnel

Transactions are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

Key management personnel balances

| Fees Outstanding | 2016 | 2015 |
|---|-------------|-------------|
| | \$ | \$ |
| Director fees payable to WRECKT Pty Ltd, a company of which William Dix is a director (+) | 18,333 | 13,383 |
| Director fees payable to Arc Resources Pty Ltd, a company of which Andrew Richards is a director (+) | 8,333 | 8,333 |
| Director fees payable to The Eyeon Investments Family Trust, a company of which Stephen Copulos is a director (+) | 10,036 | - |

+ These amounts are included in the remuneration report in the directors' report.

For further details refer to the Remuneration Report in the Directors Report.

| NOTE 3. AUDITORS' REMUNERATION | 2016 | 2015 |
|--|---------------|---------------|
| | \$ | \$ |
| Remuneration of the auditor for: | | |
| i. Auditing and reviewing the financial report | 21,501 | 21,600 |
| ii. Taxation services and corporate services | - | - |
| | <u>21,501</u> | <u>21,600</u> |

| NOTE 4. INCOME TAX | 2016 | 2015 |
|---|-------------|-------------|
| | \$ | \$ |
| Reconciliation of income tax expense to prima facie tax payable | | |
| The prima facie tax payable on (benefit) from ordinary activities before income tax is reconciled to the income tax expense as follows: | | |
| Prima facie tax benefit on operating loss at 30% (2015: 30%) | (548,357) | (731,930) |
| Add Tax effect of: | | |
| Non-deductible items | 90,000 | 442,522 |
| Deferred tax asset not brought to account | 458,357 | 289,408 |
| Income tax attributable to operating loss | <u>-</u> | <u>-</u> |

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward, amounts to approximately \$9,982,526 (2015: \$9,524,169) have not been brought to account at 30 June 2016 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 if:

- 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 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 30 June 2016.

CONSOLIDATED ZINC LIMITED

ABN 27 118 554 359

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

NOTE 5. EARNINGS PER SHARE

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| a) Loss used to calculate basic EPS | (1,742,218) | (2,439,767) |
| | Number of Shares | Number of Shares |
| b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 239,968,686 | 62,752,342 |

NOTE 6. CASH AND CASH EQUIVALENTS

| | | |
|--------------------------|-----------|-----------|
| Cash at bank and in hand | 4,582,756 | 1,802,357 |
|--------------------------|-----------|-----------|

NOTE 7. FINANCIAL ASSETS

Financial assets at fair value through profit and loss

| | | |
|--------------------------------|-------|-------|
| Held for trading listed shares | 2,800 | 6,509 |
|--------------------------------|-------|-------|

NOTE 8. TRADE AND OTHER RECEIVABLES

| | 2016 | 2015 |
|---------------------------------|-------------|-------------|
| | \$ | \$ |
| <i>Current</i> | | |
| Trade receivables | 61,050 | - |
| Prepayments Other | 165,700 | 60,380 |
| | 226,750 | 60,380 |
| <i>Non-Current</i> | | |
| Loan to related party (Note 19) | 78,513 | 78,513 |
| Other | 546,019 | - |
| | 624,532 | 78,513 |

CONTROLLED ENTITIES

NOTE 9.

Country of Incorporation

Subsidiaries of Consolidated Zinc Limited:

| | | 2016 | 2015 |
|-------------------------------|-----------|-------------|-------------|
| Arena Exploration Pty Ltd | Australia | 100 | 100 |
| Newera Resources Mongolia LLC | Mongolia | 100 | 100 |
| Minera Latin American Zinc | Mexico | 51 | - |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDING 30 JUNE 2016

NOTE 10. PLANT AND EQUIPMENT

| | 2016 | 2015 |
|----------------------------|---------------|-------------|
| | \$ | \$ |
| PLANT AND EQUIPMENT | | |
| At cost | 35,226 | 60,784 |
| Accumulated depreciation | (6,685) | (60,784) |
| Total plant and equipment | <u>28,541</u> | <u>-</u> |

a. Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

| | 2016 | 2015 |
|------------------------------|---------------|-------------|
| | \$ | \$ |
| Plant and Equipment | | |
| Balance at beginning of year | - | 624 |
| Additions | 35,226 | - |
| Depreciation expense | (6,904) | (624) |
| Foreign exchange effect | 219 | - |
| Balance at end of year | <u>28,541</u> | <u>-</u> |

NOTE 11. EXPLORATION EXPENDITURE

| | 2016 | 2015 |
|--|------------------|------------------|
| | \$ | \$ |
| Exploration expenditure | <u>8,078,016</u> | <u>4,314,153</u> |
| Opening balance | 4,314,153 | 1,634,401 |
| Exploration incurred during the year | 4,063,864 | 4,154,825 |
| Impairment | (300,001) | (1,475,073) |
| Exploration and evaluation phase expenditure capitalised | <u>8,078,016</u> | <u>4,314,153</u> |

The value of Group interest in exploration expenditure is dependent upon the:

- the continuance of the consolidated entity rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploration of the areas of interest, or alternatively, by their sale.

NOTE 12. TRADE AND OTHER PAYABLES

| | 2016 | 2015 |
|-------------------------------------|----------------|----------------|
| | \$ | \$ |
| Trade creditors | 637,434 | 112,340 |
| Other payables and accruals | 16,596 | 36,717 |
| Monies received for unissued shares | - | 100,000 |
| | <u>654,030</u> | <u>249,057</u> |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDING 30 JUNE 2016

| | 2016 | 2015 |
|----------------------------|------------------|----------|
| | \$ | \$ |
| NOTE 13. BORROWINGS | | |
| Convertible notes | 1,505,000 | - |
| | <u>1,505,000</u> | <u>-</u> |

The convertible notes were unsecured.

Refer note 23 for terms of Convertible notes issued and non related party loans.

| | 2016 | 2015 |
|--|------------|------------|
| | \$ | \$ |
| NOTE 14. ISSUED CAPITAL | | |
| 410,639,291 (2015: 216,030,958) Fully paid ordinary shares | 26,719,651 | 19,188,726 |

| a) Ordinary Shares | 2016 | | 2015 | |
|---|------------------|------------|------------------|------------|
| | Number of Shares | \$ | Number of Shares | \$ |
| At the beginning of the year | 216,030,958 | 19,188,726 | 485,161,682 | 12,262,739 |
| Shares issued during the year | | | | |
| 25 July 2014 – Conversion of 272 convertible notes | - | - | 170,000,000 | 272,000 |
| 5 Sept 2014 – Entitlement Issue | - | - | 524,129,346 | 1,048,303 |
| 5 Dec 2014 – Shares issued in lieu of Director fees | - | - | 39,875,000 | 79,750 |
| 4 Feb 2015 – Capital raising | - | - | 150,000,000 | 300,000 |
| 25 Feb 2015 – Share Purchase Plan | - | - | 148,947,336 | 283,000 |
| 10 April 2015 – Shares issued in lieu of fees | - | - | 25,000,000 | 50,000 |
| 22 June 2015 – 1 for 20 consolidation | - | - | (1,465,957,406) | - |
| 22 June 2015 – Capital raising | - | - | 66,250,000 | 2,650,000 |
| 22 June 2015 – Conversion of convertible loans | - | - | 32,250,000 | 1,290,000 |
| 22 June 2015 – Shares issued in lieu of fees | - | - | 1,250,000 | 50,000 |
| 22 June 2015 – Shares issued in lieu of Director fees | - | - | 1,625,000 | 65,000 |
| 22 June 2015 – Shares issued to Mexican Vendors | - | - | 25,000,000 | 1,000,000 |
| 22 June 2015 – Shares issued to Arena Vendors | - | - | 12,500,000 | 500,000 |
| 1 July 2015 – Capital Raising | 2,500,000 | 100,000 | - | - |
| 1 July 2015 – Shares issued in lieu of Directors fees | 375,000 | 15,000 | - | - |
| 5 Aug 2015 – Shares issued in lieu of fees | 750,000 | 30,000 | - | - |
| 31 Dec 2015 – Capital Raising | 14,083,334 | 633,750 | - | - |
| 31 Dec 2015 – Shares issued in lieu of fees | 1,305,555 | 55,000 | - | - |
| 31 Dec 2015 – Shares issued in lieu debt facility fee | 3,000,000 | 135,000 | - | - |
| 8 Feb 2016 – Capital Raising | 16,444,444 | 740,000 | - | - |
| 5 April 2016 – Capital Raising | 1,000,000 | 45,000 | - | - |
| 13 May 2016 – Capital Raising | 35,000,000 | 1,400,000 | - | - |
| 30 June 2016 – Capital Raising | 120,150,000 | 4,806,000 | - | - |
| Share issue costs | - | (428,825) | - | (662,066) |
| At the end of the year | 410,639,291 | 26,719,651 | 216,030,958 | 19,188,726 |

Ordinary shares

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

Capital risk management

The Groups objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

b) Capital management

The working capital position of the Group as follows:

| | 2016 \$ | 2015 \$ |
|-----------------------------|-------------|------------|
| Cash and cash equivalents | 4,582,756 | 1,802,357 |
| Financial assets | 2,800 | 6,509 |
| Trade and other receivables | 226,750 | 60,380 |
| Trade and other payables | (654,030) | (249,057) |
| Borrowings | (1,505,000) | - |
| Working capital position | 2,653,276 | 1,620,189 |

NOTE 15. RESERVES

| | 2016 \$ | 2015 \$ |
|---------------------------------------|------------|------------|
| a) Option Reserve | | |
| Balance at the beginning of the year | 468,811 | 218,005 |
| Performance rights issued during year | 16,152 | - |
| Options issued during year | 109,505 | 250,806 |
| Balance at the end of the year | 594,468 | 468,811 |

The option reserve records items recognised on valuation of share options issued to employees, directors and consultants as part of their remuneration. Refer to Note 22.

b) Foreign Currency Translation reserve

| | | |
|--------------------------------------|-----------|---------|
| Balance at the beginning of the year | 103,898 | 44,162 |
| Movement during the year | (464,573) | 59,736 |
| Balance at the end of the year | (360,675) | 103,898 |

The foreign currency translation reserve is created on the consolidation of the Mongolian subsidiary as this is accounted for in US dollars and the Mexican subsidiary which is accounted for in Mexican Pesos and converted at balance date to AU dollars.

NOTE 16. COMMITMENTS

a) The Group has tenements rental and expenditure commitments of:

| | 2016 \$ | 2015 \$ |
|---------------------------------|------------|------------|
| Payable: | | |
| – not later than 12 months | 220,978 | 171,646 |
| – between 12 months and 5 years | 883,912 | 26,646 |
| – greater than 5 years | 7,332,341 | - |
| | 8,437,232 | 198,292 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDING 30 JUNE 2016

NOTE 16. COMMITMENTS

b) Operating Lease

On 20 July 2015, the Company entered into a corporate services agreement which included access to office facilities at Suite 1, Level 1, 35 Havelock Street, West Perth.

Payable:

| | | |
|---------------------------------|---------------|---------------|
| – not later than 12 months | 11,680 | 31,854 |
| – between 12 months and 5 years | - | - |
| | <u>11,680</u> | <u>31,854</u> |

NOTE 17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or assets.

NOTE 18. CASH FLOW INFORMATION

| | 2016 | 2015 |
|---|--------------------|--------------------|
| | \$ | \$ |
| a) Reconciliation of Cash | | |
| Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows: | | |
| Cash at bank and in hand | <u>4,582,756</u> | <u>1,802,357</u> |
| Reconciliation of Cash Flow from Operations with Operating Loss after Income Tax | | |
| Operating loss after income tax | (1,827,856) | (2,439,767) |
| Non-cash flows in loss after income tax | | |
| Share-based payment | 125,657 | - |
| Shares in lieu of payment | 75,000 | - |
| Depreciation and amortisation | 6,904 | 624 |
| Interest on convertible notes | 135,000 | 40,000 |
| (Gain) / loss on sale of financial assets | - | (800) |
| Exploration written down | 300,001 | 1,480,819 |
| Foreign currency translation | 83,044 | - |
| <i>Changes in assets and liabilities</i> | | |
| Increase in current trade and other receivables | (166,369) | (43,847) |
| Decrease/(increase) in other assets | 3,709 | (2,052,589) |
| Increase in non-current trade and other receivables | (546,018) | - |
| Increase/(decrease) in trade and other payables | 504,973 | (124,305) |
| <i>Net Cash Flow used in Operating Activities</i> | <u>(1,305,955)</u> | <u>(3,139,865)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

| b) Non Cash Financing and Investing Activities | 2016 \$ | 2015 \$ |
|---|------------|------------|
| Included in capital raising fees are the following: | | |
| Issue of 10,000,000 unlisted (pre-consol) options in relation to the Convertible Notes. | - | - |
| Issue of 40,000,000 listed (pre-consol) options in relation to Capital Raising | - | 54,488 |
| Issue of 50,000,000 listed (pre-consol) options in relation to Capital Raising | - | 50,000 |
| Issue of 20,000,000 listed (pre-consol) options in relation to Capital Raising | - | 20,000 |
| Issue of 250,000 unlisted options in relation to Capital Raising | - | 5,850 |
| Issue of 5,000,000 unlisted options in relation to provision of Convertible Loans | - | 117,000 |
| Issue of 555,555 shares in lieu of fees | 25,000 | - |
| Issue of 375,000 shares in lieu of Directors Fees | 15,000 | - |
| Issue of 1,500,000 shares to consultants in lieu of payment | 60,000 | - |
| Issue of 4,000,000 unlisted options to consultant in lieu of payment | 90,400 | - |
| Issue of 3,000,000 shares in relation to provision of Convertible Notes | 135,000 | - |
| Issue of 7,500,000 unlisted incentive options to Directors | 19,105 | - |
| Issue of 5,000,000 Performance Rights to Directors | 16,152 | - |

NOTE 19. RELATED PARTY TRANSACTIONS

Other than remuneration disclosed in the Remuneration Report section of the Directors report, there has been the following transactions:

On 14 October 2015, the Company announced a \$1,000,000 convertible loan facility with a related entity, the Copulos Group, to be converted subject to shareholder approval at \$0.045 per share. In addition, 3,000,000 ordinary shares will be issued as consideration for fees and interest.

On 22 March 2016, the Company announced a \$505,000 convertible loan facility with a related entity, the Copulos Group, to be converted subject to shareholder approval at \$0.045 per share (with a free 1 for 2 unlisted option, \$0.06, 31 December 2018 expiry). In addition, 400,000 ordinary shares will be issued as consideration for fees and interest.

At 30 June 2016, a loan was outstanding from a company associated with Luis Rogelio Martinez Valles totalling \$78,513. This will be repayable upon re-commencement of mining operations at Plomosas.

These transactions have been entered into on normal commercial terms and conditions no more favourable than those available to other parties.

NOTE 20. FINANCIAL INSTRUMENTS

a) **Financial Risk Management**

The Group's financial instruments consist mainly of deposits with banks, short-term investments, and accounts receivable and payable.

The main purpose of non-derivative financial instruments is to raise finance for the Group's operations.

Derivatives are not currently used by the Group for hedging purposes. The Group does not speculate in the trading of derivative instruments.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

| Financial Assets | 2016 \$ | 2015 \$ |
|---|--------------------|--------------------|
| Cash and cash equivalents | 4,582,756 | 1,802,357 |
| Financial assets at fair value through profit or loss | | |
| Held for trading | 2,800 | 6,509 |
| Trade and other receivables - current | 226,750 | 60,380 |
| Trade and other receivables – non current | 624,532 | 78,513 |
| Total Financial Assets | 5,436,838 | 1,948,209 |
| Financial Liabilities | | |
| Trade and other payables | 654,030 | 249,057 |
| Borrowings | 1,505,000 | - |
| Total Financial Liabilities | 2,159,030 | 249,057 |

i. Treasury Risk Management

The full board meet on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

ii. Financial Risks

The Group's financial instruments consist mainly of deposits with banks, short-term investments, and accounts receivable and payable. The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, credit risk, and market risk (being equity price risk).

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.

Sensitivity analysis

If interest rates on cash balances had weakened/strengthened by 1% at 30 June, there would be no material impact on the statement of profit or loss and other comprehensive income. There would be no material effect on the equity reserves other than those directly related to the statement of profit or loss and other comprehensive income movements.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk by preparing forward looking cash flow analysis in relation to its operational, investing and financing activities and monitoring its cash assets and assets readily convertible to cash in the context of its forecast future cash flows. The Group continually monitors its access to additional equity capital should that be required, maintains a reputable credit profile and manages the credit risk of its financial assets.

Foreign Currency risk

The Group is exposed to foreign currency risk from investments and borrowings held in a currency other than the Group's functional currency. The Group's exposure to foreign currency risk relates to financial instruments held in Mexican Pesos and US Dollars.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDING 30 JUNE 2016

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. The Group does not have any material credit risk exposure to any single receivable or Group of receivables under financial instruments entered into by the Group.

| | 2016 \$ | 2015 \$ |
|---------------------------|------------|------------|
| Cash and cash equivalents | 4,582,756 | 1,802,357 |
| | 4,582,756 | 1,802,357 |

Market Risk – Equity/Securities Price Risk

The Group is also exposed to securities price risk on investments held for trading or for medium to longer terms. Such risk is managed through diversification of investments and by seeking the advice of suitably qualified specialist advisers

b) Fair value estimation

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

| | Floating Interest Rate | | Fixed Interest Rate | | | | Non-Interest Bearing | | Total | | Weight Effective Interest Rate | |
|---|------------------------|------------|---------------------|------------|------------|------------|----------------------|------------|------------|------------|--------------------------------|-----------|
| | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ | 2016 % | 2015 % |
| Financial Assets | | | | | | | | | | | | |
| Cash | 4,582,756 | 1,802,357 | - | - | - | - | - | - | 4,582,756 | 1,802,357 | 0.99 | 0.85 |
| Investments held for trading | - | - | - | - | - | - | 2,800 | 6,509 | 2,800 | 6,509 | - | - |
| Trade and other receivables - current | - | - | - | - | - | - | 226,750 | 60,380 | 226,750 | 60,380 | - | - |
| Trade and other receivables – non current | - | - | - | - | - | - | 624,532 | 78,513 | 624,532 | 78,513 | - | - |
| Total Financial Assets | 4,582,756 | 1,802,357 | - | - | - | - | 854,082 | 145,402 | 5,436,838 | 1,947,759 | | |
| Financial Liabilities | | | | | | | | | | | | |
| Trade and other payables | - | - | - | - | - | - | 654,030 | 249,057 | 654,030 | 249,057 | - | - |
| Borrowings | - | - | - | - | - | - | 1,505,000 | - | 1,505,000 | - | - | - |
| Total Financial Liabilities | - | - | - | - | - | - | 2,159,030 | 249,057 | 2,159,030 | 249,057 | - | - |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

NOTE 21. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group is managed primarily on the basis of business category and geographical areas. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Segment assets

Where an asset is used across multiple segments, the asset is allocated proportionately to the applicable segments based on its use. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location. Unless indicated otherwise in the segment assets note, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group operates as a single segment which is mineral exploration, and there were no major customers. The Group is domiciled in Australia. All revenue from external parties is generated from Australia only. Segment revenues are allocated based on the country in which the party is located.

Segment assets are allocated to countries based on where the assets are located. Refer to table below for allocations.

Assets by geographical region

The location of segment assets by geographical location of the assets is disclosed below:

| | 2016 \$ | 2015 \$ |
|---------------------|-------------------|------------------|
| Australia | 4,359,631 | 2,240,893 |
| Mexico | 9,176,679 | 4,014,153 |
| Mongolia | 7,085 | 6,866 |
| Total assets | 13,543,395 | 6,261,912 |

NOTE 22. SHARE-BASED PAYMENTS

During the year 11,500,000 options were issued as share based payments (2015: 11,746,875), and 5,000,000 performance rights options were issued to directors as share based payments (2015: nil)

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Group with full dividend and voting rights. Details of the options granted can be found below;

CONSOLIDATED ZINC LIMITED

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

| | 2016 | | 2015 | |
|---|-------------------|---------------------------------------|-------------------|---------------------------------------|
| | Number of options | Weighted average exercise price cents | Number of options | Weighted average exercise price cents |
| Outstanding at the beginning of the year | 46,887,642 | 1.0 | 195,750,000* | 0.64* |
| Granted – unlisted options issued free on conversion of loans | - | - | 170,000,000* | 0.32* |
| Granted – listed options free attached to entitlements issue | - | - | 262,064,696* | 0.5* |
| Granted – listed options issued to consultant as underwriter fee | - | - | 40,000,000* | 0.5* |
| Granted – listed options issued to Directors in lieu of fees | - | - | 19,937,500* | 0.5* |
| Granted – listed options issued free attached to capital raising | - | - | 75,000,000* | 0.5* |
| Granted – listed options issued to consultant as placement fee | - | - | 50,000,000* | 0.5* |
| Granted – listed options issued to consultant as underwriter fee | - | - | 20,000,000* | 0.5* |
| Consolidation – 1 for 20 listed options | - | - | (443,652,054) | - |
| Consolidation – 1 for 20 unlisted options | - | - | (347,462,500) | - |
| Granted – unlisted options issued to consultants as placement fee | - | - | 250,000 | 6.4 |
| Granted – unlisted options issued to consultant as fee on convertible loans | - | - | 5,000,000 | 6.4 |
| Granted – unlisted options share based payment to advisors | 4,000,000 | 0.06 | - | - |
| Granted – unlisted options free attached to share issue | 93,338,891 | 0.06 | - | - |
| Granted – unlisted options director options | 7,500,000 | 0.06 | - | - |
| Forfeited | - | - | - | - |
| Exercised | - | - | - | - |
| Expired | (600,000) | 1.00 | - | - |
| Outstanding at year-end | 151,126,533 | 0.03 | 46,887,642 | 1.0 |
| Exercisable at year-end | 143,626,533 | 0.03 | 46,887,642 | 1.0 |

*pre-consolidation

The weighted average remaining contractual life of options outstanding at year end was 25 months.

a) Expenses arising from share-based payment transactions

During the year, the following performance rights and options were issued:

- 4,000,000 Unlisted Advisor Options exercisable at \$0.06 each on or before 20 July 2018
- 7,500,000 Unlisted Incentive Options exercisable at \$0.06 each on or before 5 June 2020
- 93,338,891 Unlisted free attaching options exercisable at \$0.06 each on or before 31 December 2018
- 5,000,000 Performance Rights Options were granted to key management personnel

Details of these issues below or outlined in the remuneration report:

Options

4,000,000 Unlisted Advisor options were issued on 5 August 2015 for the provision of advisory services, these are exercisable at \$0.06 each on or before 20 July 2018. Total value of \$90,400 vested immediately and was expensed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016

NOTE 23. CONVERTIBLE NOTES

| | 2016 | 2015 |
|--------------------------------------|------------------|-------------|
| | \$ | \$ |
| Movement in convertible notes | | |
| Not yet issued but monies received | - | 272,000 |
| Issued during the year | 1,505,000 | 1,250,000 |
| Converted during the year | - | (1,522,000) |
| | <u>1,505,000</u> | <u>-</u> |

On 14 October 2015, the Company announced that to fund the of the Plomosas drilling project, one of the Company's major shareholders, the Copulos Group, agreed to provide \$1,000,000 by way of a convertible note facility that will convert to equity at the same time and price as the Company's next capital Raising. The key terms of the convertible note were:

- \$1,000,000 facility with \$500,000 available immediately:
- The note has a maturity date of 12 months from establishment:
- The Company will pay a fixed fee of 3,000,000 fully paid shares, no additional interest or fees will be paid by the Company to the Copulos Group;
- The loan can convert to shares at the Company's next capital raising: and
- Conversion of the notes shall be subject to compliance with section 606 of the Corporations Act

On 22 March 2016, the Company announced that to maintain drilling momentum an interim funding package was in place this included convertible notes totalling \$505,000 as follows:

- Convertible loan facility with the Copulos Group to be converted subject to shareholder approval on the same terms as recent placements, \$0.045 per share (with a free 1 for 2 unlisted option, \$0.06, 31 December 2015 expiry). 400,000 ordinary shares will be issued as consideration for fees and interest.
- Convertible loan facility with the Retzos Group to be converted subject to shareholder approval on the same terms as recent placements, \$0.045 per share (with a free 1 for 2 unlisted option, \$0.06, 31 December 2015 expiry). 262,000 ordinary shares will be issued as consideration for fees and interest.

NOTE 24. PARENT INFORMATION

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

| | 2016 | 2015 |
|--------------------------|-------------------|------------------|
| | \$ | \$ |
| Current Assets | 4,359,631 | 1,862,378 |
| Non-Current Assets | 10,552,205 | 4,399,534 |
| TOTAL ASSETS | <u>14,911,836</u> | <u>6,261,912</u> |
| Current Liabilities | 1,635,516 | 249,057 |
| TOTAL LIABILITIES | <u>1,635,516</u> | <u>249,057</u> |
| NET ASSETS | <u>13,276,320</u> | <u>6,012,855</u> |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2016****EQUITY**

| | | |
|---------------------|-------------------|------------------|
| Issued capital | 26,719,651 | 19,188,726 |
| Reserves | 594,470 | 468,813 |
| Accumulated losses | (14,037,801) | (13,644,684) |
| TOTAL EQUITY | 13,276,320 | 6,012,855 |

STATEMENT OF COMPREHENSIVE INCOME

| | | |
|----------------------------|-------------|-------------|
| Total Loss | (1,643,986) | (2,423,795) |
| Total Comprehensive Income | (1,643,986) | (2,423,795) |

Consolidated Zinc Limited does not hold any deed of cross guarantee for the debts of its subsidiary company as at 30 June 2016 (2015: Nil).

Consolidated Zinc Limited has no contingent liabilities at 30 June 2016 (2015: Nil).

Consolidated Zinc Limited has no commitments for the acquisition of property, plant and equipment as at 30 June 2016 (2015: Nil).

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

NOTE 25. GROUP DETAILS

The registered office and principal place of business of the Group is:
Suite 1, Level 1
35 Havelock Street
WEST PERTH WA 6005

NOTE 26. EVENTS AFTER THE REPORTING DATE

The Company issued the following securities subsequent to the end of the reporting date:

- 7,300,000 ordinary shares and 3,650,000 Options (exercisable \$0.06, expiring 31 December 2018) were issued to sophisticated investors to raise \$292,000 before costs
- 1,174 Options were exercised raising \$117.
- 11,848,222 shares and 5,611,111 Options (exercisable \$0.06, expiring 31 December 2018) were issued for conversion and interest payable of debt facilities provided by the Copulos Group (\$305,000) and the Retzos Group (\$200,000)
- 23,572,000 Options (exercisable \$0.06, expiring 31 December 2018) were issued for advisory fees.
- 23,348,968 Options (exercisable \$0.10, expiring 31 July 2016) expired on 31 July 2016

On 27 September 2016 the Company announced it had executed an agreement with the vendors of the Plomosas Zinc project for the purchase of an additional 39% of the shares in Latin American Zinc S.A.P.I. de C.V, the company that owns 100% of the high grade Plomosas Zinc-Lead-Silver mine from Retec Guarú S.A. de C.V, the Company's Mexican partner. Under the terms of this re-negotiated agreement, Consolidated Zinc group will pay \$500,000 and US\$800,000 to increase its ownership to 80%, increased from \$750,000 in cash and \$1,700,000 in CZL shares, under the original agreement.

DIRECTORS' DECLARATION

The directors of the Company declare that:

- (a) the financial statements and notes thereto are in accordance with the Corporations Act 2001 and;
 - (i) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards; and
 - (ii) give a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date.
- (b) In the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
- (c) The directors have been given the declarations required by s 295A of the Corporations Act 2001; and
- (d) As at the date of this declaration, in the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors:



WILLIAM DIX
Managing Director

DATED this 30th day of September 2016

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

Report on the Financial Report

We have audited the accompanying financial report of Consolidated Zinc Limited (the "Company") and its controlled entities (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2016 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report which gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's Opinion

In our opinion, the financial report of Consolidated Zinc Limited and its controlled entities is in accordance with the Corporations Act 2001 including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- b) complying with Australian Accounting Standards the Corporations Regulations 2001.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 20 to 26 of the Directors' Report for the year ended 30 June 2016.

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Consolidated Zinc Limited and its controlled entities for the year ended 30 June 2016 complies with section 300A of the Corporations Act 2001.

BUTLER SETTINERI (AUDIT) PTY LTD



LUCY P GARDNER
Director

Perth

Date: 30 September 2016

SHAREHOLDER INFORMATION

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

SHAREHOLDINGS

The names of the substantial shareholders listed on the Company's register as at 28 September 2015:

| Shareholder | Number | Percentage of issued capital held |
|-----------------------------------|------------|-----------------------------------|
| Copulos Group | 82,367,332 | 19.16 |
| Farjoy Pty Ltd | 40,750,000 | 9.48 |
| Chris Retzos | 36,136,444 | 8.41 |
| Compania Retec Guarú S.A. De C.V. | 25,000,000 | 5.82 |

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.

DISTRIBUTION OF SHAREHOLDERS (as at 28 September 2015)

| Shares Range | No of Holders | Units | % |
|-------------------|---------------|--------------------|------------|
| 1 – 1,000 | 146 | 46,185 | 0.01 |
| 1,001 – 5,000 | 69 | 183,488 | 0.04 |
| 5,001 – 10,000 | 31 | 247,018 | 0.06 |
| 10,001 – 100,000 | 726 | 29,496,613 | 6.86 |
| 100,001 and above | 322 | 399,851,383 | 93.03 |
| Total | 1,294 | 429,824,687 | 100 |

There are 322 holders of unmarketable parcels comprising a total of 1,406,098 ordinary shares.

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

There are currently no restricted securities on issue.

Unlisted options

| Unlisted Options | No of Holders | Units on issue |
|---|---------------|--------------------|
| Exercisable at \$0.20 on or before 6 March 2017 | 2 | 500,000 |
| Exercisable at \$0.064 on or before 6 March 2018 | 15 | 22,437,500 |
| Exercisable at \$0.06 on or before 20 July 2018 | 1 | 4,000,000 |
| Exercisable at \$0.06 on or before 31 December 2018 | 103 | 126,172,002 |
| Exercisable at \$0.06 on or before 5 June 2020 | 2 | 7,500,000 |
| Total | | 160,609,502 |

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

(As at 28 September 2015)

| | Name | Number of Shares | % |
|----|--|--------------------|-------------|
| 1 | FARJOY PTY LTD | 40,750,000 | 9.48 |
| 2 | COMPANIA RETEC GUARU SA DE CV | 25,000,000 | 5.82 |
| 3 | EYEON INVESTMENTS PTY LTD <EYEON INVESTMENTS FAMILY A/C> | 24,094,444 | 5.61 |
| 4 | RETZOS EXECUTIVE PTY LTD <RETZOS EXECUTIVE S/FUND A/C> | 20,323,222 | 4.73 |
| 5 | GASMERE PTY LTD | 18,300,000 | 4.26 |
| 6 | SUPERMAX PTY LTD <SUPERMAX SUPER FUND A/C> | 16,993,958 | 3.95 |
| 7 | WESTPARK OPERATIONS PTY LTD <WESTPARK OPERATIONS UNIT A/C> | 15,813,222 | 3.68 |
| 8 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <ST A/C> | 11,975,596 | 2.79 |
| 9 | UBS NOMINEES PTY LTD | 9,181,605 | 2.14 |
| 10 | MR MATHEW JOHN MCALLISTER | 9,156,709 | 2.13 |
| 11 | CITYWEST CORP PTY LTD <COPULOS SUNSHINE UNIT A/C> | 8,693,334 | 2.02 |
| 12 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <CW A/C> | 7,500,000 | 1.74 |
| 13 | JETOSEA PTY LIMITED | 6,866,900 | 1.6 |
| 14 | TONKA TRADING PTY LTD <THE JAKESSI SUPER FUND A/C> | 6,797,363 | 1.58 |
| 15 | SPACETIME PTY LTD <COPULOS EXEC S/F NO 1 A/C> | 5,160,000 | 1.2 |
| 16 | TONKA TRADING PTY LTD | 4,906,260 | 1.14 |
| 17 | JETOSEA PTY LTD | 4,800,000 | 1.12 |
| 18 | MR KEVIN BANKS-SMITH | 4,575,100 | 1.06 |
| 19 | SENM (SUPER) PTY LTD <CASZUR EXECUTIVE S/F A/C> | 4,444,444 | 1.03 |
| 20 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 4,226,079 | 0.98 |
| 21 | CF SUNDOWNER PTY LTD <THE CFS UNIT A/C> | 3,870,000 | 0.9 |
| 22 | MITROPOULOS NOMINEES PTY LTD <SUPER FUND ACCOUNT> | 3,000,000 | 0.7 |
| 23 | MR KEVIN BANKS-SMITH | 2,900,000 | 0.67 |
| 24 | HDF INVESTMENT PTY LTD | 2,750,000 | 0.64 |
| 25 | MR MATHEW JOHN MCALLISTER | 2,708,815 | 0.63 |
| | | 264,787,051 | 61.6 |

TENEMENT SCHEDULE

The schedule of tenements and concessions held by the Company as at 28 September 2016 are summarised in the Table below.

| Consolidated Zinc Ltd Tenement schedule | | | | |
|---|--------------|--------------|--------------|--------|
| Lease | Project | Type | Lease Status | Equity |
| Mexico | | | | |
| 235942 | Plomosas | Mining | Granted | 51% |
| 230175 | Plomosas | Mining | Granted | 51% |
| 217641 | Plomosas | Exploitation | Granted | 51% |
| 218242 | Plomosas | Exploitation | Granted | 51% |
| 225527 | Plomosas | Exploitation | Granted | 51% |
| 218272 | Plomosas | Exploitation | Granted | 51% |
| 216882 | Plomosas | Exploitation | Granted | 51% |
| 227664 | Plomosas | Mining | Granted | 51% |
| 227078 | Plomosas | Mining | Granted | 51% |
| 227077 | Plomosas | Mining | Granted | 51% |
| 224880 | Plomosas | Exploration | Granted | 51% |
| | | | | |
| Mongolia | | | | |
| 12323X* | Ulaan Tolgoi | Exploration | Granted | 51% |
| | | | | |

* In process of relinquishment