

## ZINC IS NOT GLAMEROUS...BUT IT CAN BE REWARDING

### Consolidated Zinc

Consolidated Zinc is exploring for zinc-lead-silver in the Mexican State of Chihuahua, which has an extensive history of resource exploration, development and mining. The company's major emphasis is on developing its flagship high grade Plomosas zinc project in which it holds a 51% interest. The Plomosas site already hosts extensive underground infrastructure, as the deposit had been mined historically. The company's focus will be on recommencing commercial operations through extending the known Plomosas deposit. *Figure 1* shows the location of the company's Plomosas project (Au – gold, Pb – lead, Zn –zinc, Ag – silver).



Figure 1 - Source: Consolidated Zinc

The Plomosas zinc project is located in the Mexican State of Chihuahua, which has a rich and long history of resource exploration, development and mining. **The State and region around the Plomosas project host all the requisite mining services and utilities necessary for the company to conduct exploration, development and ultimately operations.** The region also hosts an experienced and available workforce.

**With its long history of mining, the State of Chihuahua has well defined mining legislation and regulations.** Moreover, the State authorities and the local populace are supportive of the resources sector, with the Federal authorities also very supportive of a healthy resource sector. The political environment at both the State and Federal levels has long been stable.

**The company currently holds a 51% interest in the Plomosas project, but holds the right to farm-in to an 80% interest.** The farm-in increase in ownership is by way of an option over the Plomosas project to move, in the next three years, to an 80% interest; the option period has 15 months left to run. To acquire the additional interest, the company must spend an extra A\$750,000 on the Plomosas project and provide the vendor of the Plomosas deposit with A\$1.7 million in the company's shares. These conditions are not a requirement under the farm-in option, but have been agreed to by both parties. On completion of these requirements the vendor of the Plomosas project will then be free carried to the completion of a bankable feasibility study on the project.

The Plomosas deposit is hosted in shale-limestone units deposited at the margins of the Chihuahua sedimentary basin. The zinc-lead-silver deposits are formed by mineralised fluids migrating through district scale structures and replacing carbonate units in the shale-limestone sequence. *Figure 2* is a graphic representation of the formation of the Plomosas deposits (red – mineralised ore flow).

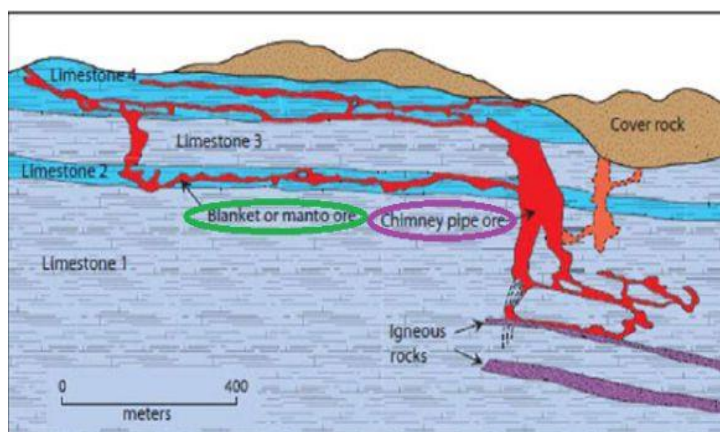


Figure 2 - Source: Consolidated Zinc

The mineralisation is confined to identifiable stratigraphic horizons and comprises either low angle stratiform sheets on several horizons (defined as manto ore – green elliptic above) or high angle, crosscutting mineralised bodies in linking structures (defined as chimneys – purple elliptic above). Ore bodies can be massive and found in groups with strike lengths from tens to several hundred metres with seam thickness in the range of one half metre to 15 metres thick, with an average of three metres. It is the characteristics of the formation of the Plomosas deposit that delivers blue-sky exploration potential.

The Plomosas deposit was historically mined between 1945 and 1974, so the underground deposit is already serviced by access shafts and declines. It is estimated that over the 29 years of operations, two million tonnes of ore graded in the range of 15% to 25% zinc and over 80 grams per tonne (g/t) silver had been extracted. Intermittent mining has occurred at Plomosas post 1974 but only on remnant ore above level five of the underground mine. Production was limited to 90 to 100 tonnes of ore per day. The mine closed on a toll treating dispute as a result of lower zinc prices at the time and a fall in zinc grades from mining.

During past mining operations, **future mine scheduling was by way of following the rich seam, so no mining reserve or mineral resource had until recently been established for the Plomosas deposit.** This method of mining requires consistency in the formation of the mineralisation. The deposit must be high grade, long life and readily observable for mining, for mining by this method to be successful.

The Plomosas project has several exploration targets with prospective mineralised horizons of up to 40 metres in thickness. *Figure 3* shows a diagrammatic concept of a Plomosas mineralised horizon (highlighted by the green elliptic) and the location of some of the underground infrastructure (white shafts).

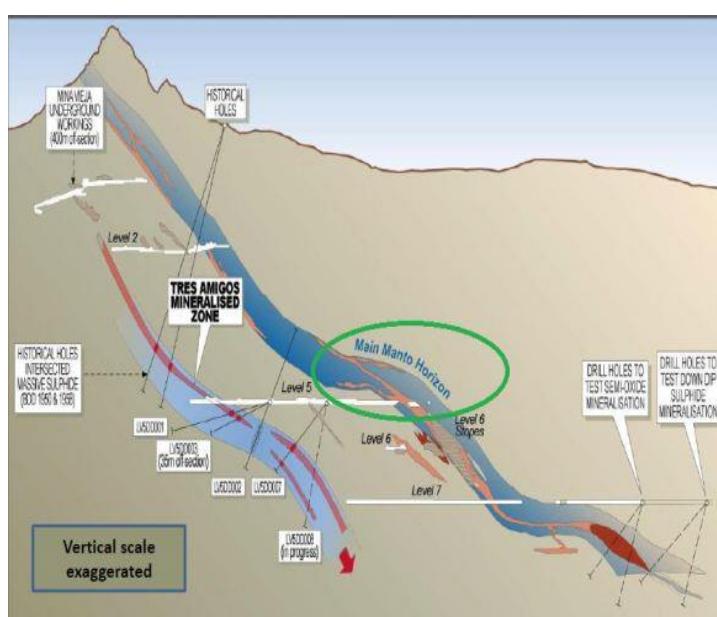


Figure 3 - Source: Consolidated Zinc

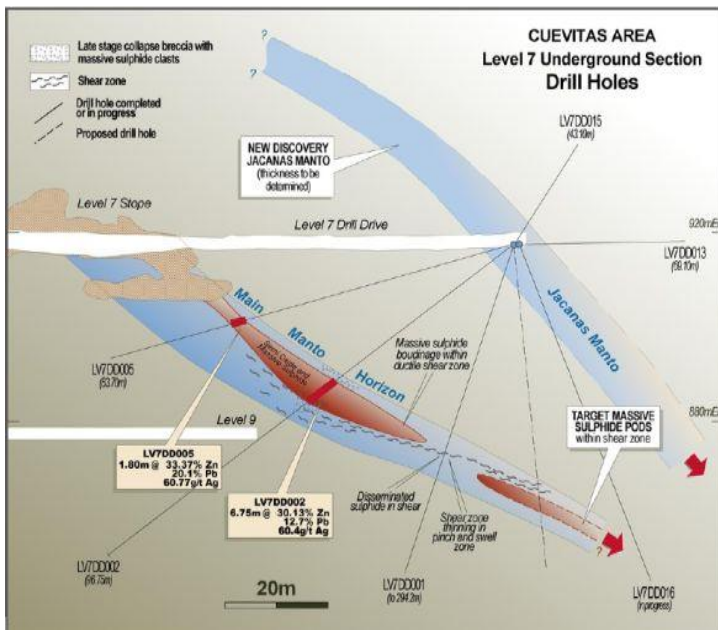


Figure 4 - Source: Consolidated Zinc

The Plomosas Tenements host over six kilometres of mineralised horizon/s that are under-explored and will require drilling. **The company is aiming an initial Stage 1 exploration target of 2.8 million to 3.2 million tonnes of ore graded in the range of 15% to 25% zinc and lead and 60g/t to 80g/t silver beneath the existing mine infrastructure.**

The company is focused on level seven to level nine of the mine region of the infrastructure already straddling the Plomosas deposit. *Figure 4* shows the region of interest between the seven and nine levels of the existing mine.

The zone of interest has a current mineralised strike of plus 400 metres, with historic assays graded at an average of 13.9% zinc. The company is drilling in the region, **with the first preliminary results from the Tres Amigos North drill campaign returning significant zinc above the historic average.** The current preliminary results confirm the potential for the repetition of ore grade mineralisation associated with the Juarez Limestone. As Members can see from the above figure, the Plomosas mineralisation remains open.

The current drill campaign at Tres Amigos North has intersected zinc outside of the defined Joint Ore Reserve Code (JORC) mineralised envelope for the existing Tres Amigos defined mineral resource. *Figure 5* shows the Tres Amigos North.

The better preliminary assays from the intersections include a multiple hit of 1.50 metres graded at better than 30% zinc, 0.59% lead and 52.05 grams per tonne (g/t) silver from 95.8 metres and then one half metre graded at better than 30% zinc,

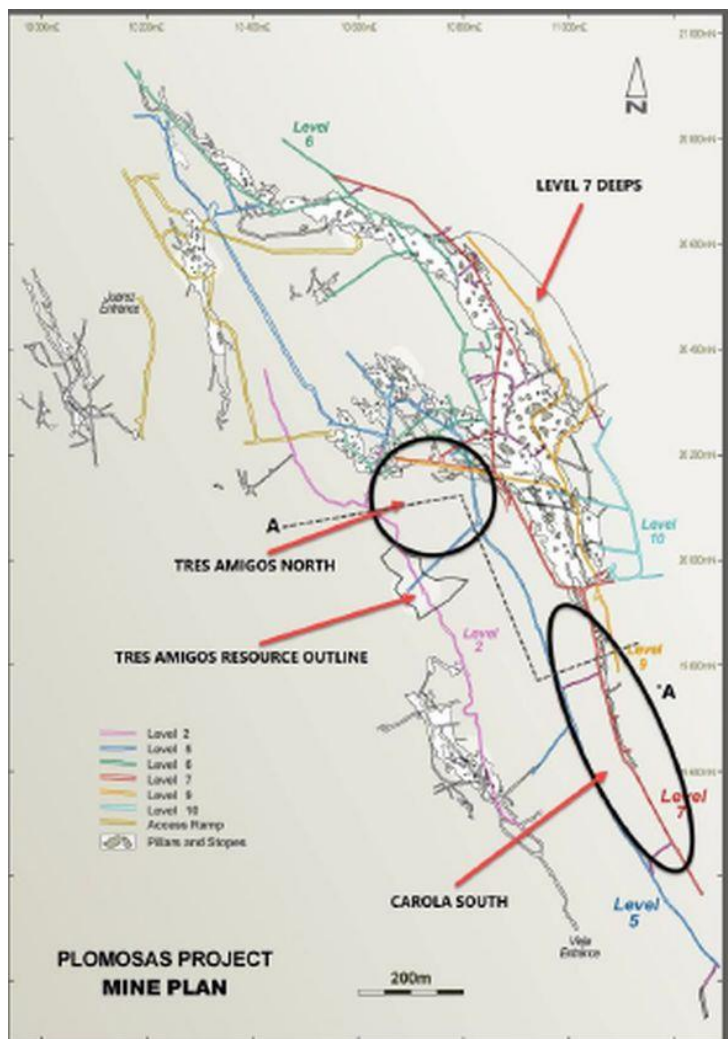


Figure 5 - Source: Consolidated Zinc

0.59% lead and 16.10gt silver from 146.65 metres and a second hole with a multiple hit of 1.85 metres graded at better than 30% zinc, 0.28% lead and 11.07gt silver from 145.95 metres and then one half metre graded at better than 30% zinc, 0.30% lead and 2.9gt silver from 205.55 metres. **The zinc results are significant as to grade, seam width, depth and certainly location.**



Figure 6 - Source: Consolidated Zinc

On Figure 6, the daily chart, the bearish moving average crossover present since July 2016 is suggestive of momentum to favour the downside (where the 50-day moving average red line crosses below the 200-day moving average green line). Positively, the rapid decline in the share price has resulted in the RSI to venture within range of oversold territory. This is an indication of short-term downward momentum to be on the exhaustion trail. Overall, in order for a bullish rotation to unfold, a sustained break above the 50-day moving average (red line) of \$0.021 is required. Should this occur, then this would improve the short-term technical landscape.

The initial grades with nine holes returning better than 30% zinc will be re assayed and calibrated to “concentrate grade” analytical methods. The results of the recalibrated assays will be available in the coming week. The new assay tests will refine the grade to an actual number above the 30%, which was the upper limit of the current assay tested results to identify mineral content.

**It is the company’s intention to extended the known mineralisation at Plomosas and bring more ore into a new mineral resource model.** The results from the current drill campaign at Tres Amigos North will, we believe, when modelled into the current mineral resource for the Tres Amigos deposit lead to upgrades. Drilling will be ongoing at Tres Amigos North, subject to results, as the company seeks to determine the geometry of the deposit and its connection with the adjacent Tres Amigos deposit.

A Joint Ore Reserve Code (JORC) compliant mineral resource has been defined for the Plomosas project and currently stands at 568,000 tonnes graded at 12.6% zinc, 4.3% lead and 28.4g/t silver. *Table 1* shows the JORC mineral resource for the Plomosas project and its current classifications.

We have high expectations from the results of exploration to date that the company will upgrade these numbers. To

December 2016 Mineral Resource Estimate (3% Zn Cut-off)							
Prospect	Indicated Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag Oz
Level 7	99,000	19.3	9.0	57.9	19,000	9,000	183,000
<b>Total</b>	<b>99,000</b>	<b>19.3</b>	<b>9.0</b>	<b>57.9</b>	<b>19,000</b>	<b>9,000</b>	<b>183,000</b>
Prospect	Inferred Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag Oz
Level 7	220,000	11.0	5.2	32.0	24,000	11,000	226,000
Tres Amigos	250,000	11.3	1.7	13.7	28,000	4,000	110,000
<b>Total</b>	<b>470,000</b>	<b>11.2</b>	<b>3.4</b>	<b>22.2</b>	<b>52,000</b>	<b>16,000</b>	<b>335,000</b>
Prospect	Total Mineral Resource						
	Tonnage t	Zn %	Pb %	Ag g/t	Zn t	Pb t	Ag Oz
Level 7	318,000	13.6	6.4	40.0	43,000	20,000	409,000
Tres Amigos	250,000	11.3	1.7	13.7	28,000	4,000	110,000
<b>Total</b>	<b>568,000</b>	<b>12.6</b>	<b>4.3</b>	<b>28.4</b>	<b>71,000</b>	<b>25,000</b>	<b>519,000</b>

Table 1 - Source: Consolidated Zinc

this end, the Carola South zone has yet to be fully explored.

A further region of interest is the Carola South zone (highlighted in the prior figure) of the Plomosas project, which has a strike of approximately 500 metres and has yet to be drilled. Given the Tres Amigos North find and the prospective nature of the Plomosas region, expectations are high for further zinc finds. We warn Members however that expectations and outcomes can vary considerably and therefore carry a higher risk.



Figure 7 - Source: Consolidated Zinc

With the company having established a maiden mineral resource for its Plomosas project, it has moved swiftly to commence a scoping study on the project. The study was commissioned in February 2017 and is expected to be complete by the June quarter 2017. *Figure 7* shows some of the existing onsite infrastructure from left to right then down - pilot plant, decline shaft and mining equipment.

The scoping study will assess mining and infrastructure options, including the possible re-establishment of past mining operations and the refurbishment and/or the potential for future expansion. The pilot plant has a capacity of 75,000 tonnes of ore per annum and when in production processed a total 100,000 tonnes of ore only. The plant commenced operations in 2006 and was placed into care and maintenance in 2011. **We expect the scoping study to deliver a positive finding on the Plomosas project with a potential fast track to production, given the onsite infrastructure.**



Figure 8 - Source: International Zinc Association

On the zinc market, we expect the supply deficit will continue to swell beyond 2017. *Figure 8* shows forecast annual demand and supply for zinc.

Mine closures and mine grade declines will continue to negatively impact on existing zinc supply. Furthermore, the flight of development capital from resources projects, including zinc, will also slow new mine supplies coming on stream. We do however expect to see some response with new project start-ups on higher zinc prices; delivery is however some years off. **We expect the zinc price will close the calendar year out in the range of US\$1.48 to US\$1.54 a pound.** The zinc price was trading, at the time of writing, around US\$1.16 a pound.

With reference to *Figure 9*, the monthly chart, prices have spent the best part of 2014 to-date trading in a broad consolidation between support at \$0.016 (horizontal blue line) and resistance of \$0.08 (horizontal red line). In order for the long-term technical outlook to improve, a definitive break above the aforementioned resistance level of \$0.08 is required. Should this scenario unfold, then this would not only confirm the completion of a much-needed basing formation, but upward momentum would also strengthen.



Figure 9 - Source: Consolidated Zinc

The company is in the midst of a capital raising through a rights entitlement to its shareholders. The rights entitlement will raise A\$2.95 million, as it is fully underwritten, and has an issue price of A\$0.016 per share. At the time of writing the share price was trading around A\$0.017. The entitlement closes on 19 May 2017. **The funds raised will be used to complete the scoping study at a cost of A\$800,000 and for ongoing resource definition drilling and exploration costed at A\$1.6 million.**

The rights are renounceable and are traded on the Australian Stock Exchange under the ASX code "CZLR". **We recommend Members do not purchase the rights to secure a holding in Consolidated Zinc, unless there is a significant price differential advantage in the rights.**

A good time to buy an explorer is before it gets too many runs on the board and the share price moves higher. Now is the time to consider Consolidated Zinc as it moves to complete, its soon to be fully funded, scoping study on its Plomosas project. Furthermore, the ongoing improvement in the value of Consolidated Zincs' Plomosas project through upgrading the mineral resource and identifying further new mineralised zones is accelerating.

The stock is speculative in nature but the quality we see in the Plomosas resource warrants our interest in the stock. **Consequently, Consolidated Zinc Ltd is recommended as a buy for all Members with an appropriate high risk appetite.**

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