

## Quarterly Activities Report September 2019

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- Completed 100% acquisition of Plomosas in September 2019, acquiring the remaining 10% interest, in exchange for a 1.0% net smelter return royalty
  - First full quarter of production from the third party Aldama concentrator, processed up to 266 tonnes ore day during September
  - 7,511 tonnes ore mined during the quarter grading 13.5% zinc and 8.2% lead, down from the June quarter as the Company processed significant ore stockpiles
  - 9,120 tonnes of ore processed at 12.5% zinc and 7.9% lead, down from the June quarter due to one off events (power outages, high lightning strikes)
  - Payable metal sold of 773 tonnes of zinc, 273 tonnes of lead and 854 ounces of silver in concentrate, up from the June quarter as the Company sold down stockpiles
  - Significant stockpiles remained on hand at quarter end which will be realised in the December quarter;
    - 4,424 tonnes of high-grade ore stockpiled for processing
    - 256 tonnes of zinc concentrate, and 106 tonnes of lead concentrate stockpiled and available for sale
  - C1 cash cost of payable zinc sold \$1.01/lb, primarily higher than the June quarter due to the temporary increase in development costs incurred to access the high-grade SOX orebody in the December quarter and an industry wide increase in smelter treatment charges
  - Significant operational improvements at the mine and processing plant have resulted in positive cash flows generation from the Plomosas operations in October
  - Drill plans finalised to follow up LV5040 which identified 3.75m (TW) at 37.5% Zn+Pb potential extension of mineralisation down dip of the current JORC resource.
  - Completed a Placement to new institutional and sophisticated investors at A\$0.011 per share to raise A\$1.0 million (before costs)
  - Announced a fully underwritten non-renounceable Rights issue of 1 new share for every 6 shares held at A\$ 0.011 per share to raise A\$2.48 million (before costs)-completed post quarter end
  - Pro-forma cash balance at quarter end A\$2.7 million incorporating gross proceeds from the Rights Issue
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All references in this report are to US\$, unless otherwise stated.

30 October 2019

Consolidated Zinc Limited (CZL:ASX or “the Company”) is pleased to present its September 2019 quarterly activities report.

All references in this report are to US\$, unless otherwise stated.

## **OPERATIONS - PLOMOSAS MINE, CHIHUAHUA STATE, MEXICO (100% OWNED)**

### **Health, Safety and Environment**

There were no reportable environmental or safety incidents during the quarter.

### **Mining**

During the quarter 7,511 tonnes were mined at Plomosas, which was lower than the previous quarter at 15,881 tonnes due to a decision taken to reduce high run-of-mine (ROM) stockpile balances which peaked at 7,301 tonnes during the quarter.

Mining unit costs for the quarter were higher than planned due to the use of on-ore development mining methods, which was at a substantial cost premium to lower cost stope mining.

The use of this higher cost mining method is temporary and was selected to establish the development required for stope mining of the semi-oxide (SOX) orebody. Stope mining will enable higher rates of mining of the high-grade SOX mineralisation. Ore was extracted from ore strike drive development at the 921mRL, 913mRL and a decline from 921mRL to 900mRL where old working established an ore strike drive along 200m of SOX ore. The decline was then advanced to the 888mRL level.

The ore strike drives established at 921mRL, 913mRL and 888mRL along with the previously established strike drive at 900mRL will form the basis for sublevel development between 875mRL and 921mRL levels. Sublevels at 12.5m intervals will then allow for mining of the SOX ore with up-dip stopes extending 30m. The development will be completed in the December quarter and stoping will then be undertaken between 875mRL and 921mRL along 200m of SOX strike length for 120m up dip stoping.

The benefits of stope mining which will commence during Q4 2019 is that it permits the mining of increased tonnages of higher-grade ore with lower mining dilution. This will lead to lower mining costs, higher processing throughputs and higher head grade in Quarter 4.

**TABLE 1. QUARTER ENDED 30 JUNE 2019 PRODUCTION STATISTICS**

			Q3 2019	Q2 2019	Q1 2019	Year to date
<b>MINED</b>	Ore	MT	7,511	15,881	11,267	34,659
	Waste	MT	3,495	4,970	9,067	17,532
	Development	Metres	187	580	612	1,379
<b>ORE PROCESSED</b>	Ore	MT	9,120	10,273	12,992	32,385
	Zinc	%	12.5%	13.2%	10.9%	12.2%
	Lead	%	7.9%	4.7%	2.0%	4.7%
	Silver	Grams/t	37.4	34.8	18.0	31.7
<b>SALES</b>	Payable Zinc	MT	773	567	1,041	2,381
	Payable Lead	MT	273	149	219	641
	Payable Silver	Oz	854	4,052	5,129	10,035
<b>C1 CASH COST PER PAYABLE ZINC SOLD</b>	Mining, Processing and G&A	\$/lb payable Zinc sold	\$0.94	\$0.78	\$0.78	\$0.83
	Treatment Charges	\$/lb payable Zinc sold	\$0.41	\$0.23	\$0.23	\$0.29
	By Product Credits	\$/lb payable Zinc sold	\$(0.34)	\$(0.16)	\$(0.16)	\$(0.22)
	<b>C1 Cash Cost</b>	<b>\$/lb payable Zinc sold</b>	<b>\$1.01</b>	<b>\$0.78</b>	<b>\$0.78</b>	<b>\$0.90</b>

### Processing

The Company is pleased to report that it is seeing early results from the upgrade of the Aldama processing facility with ore processing throughput at Aldama improved significantly towards the end of quarter, operating at up to 266 tonnes per day in September.

During the quarter 9,120 tonnes of ore were processed at average milled grades of 12.5% zinc, 7.9% lead and 37.4g/t silver. The target was to operate at 150 tonnes per day during the quarter while 101 tonnes per day was achieved. The plant availability was lower than budgeted with repeated lightning strikes through August and September affecting the grid power supply, with power restoration times taking up to 21.5 hours per lightning related power outage.

Zinc recoveries have reflected the benefits of metallurgical testwork results and towards the end of the quarter recoveries lifted from below 60% to above 70% with recoveries of zinc to zinc concentrate averaging 74% at the end of the quarter.

Lead recoveries have also reflected the benefits of metallurgical testwork resulting in an average 31% of lead to lead concentrate. Specialist studies have been commissioned and alternate reagent additions have targeted increasing the lead recoveries while retaining the higher than expected zinc recoveries.

CZL continues to hold a significant ROM stockpile with 4,424 tonnes held at the end of the quarter to be processed through Aldama in the December quarter.

## Operating Costs

September quarter C1 operating costs of \$1.01 per payable pound of payable zinc were higher than the June quarter (\$0.78/lb), due to the following factors:

- Mining of SOX ore primarily from on-ore development rather than lower cost, stope mining methods which will commence in the Q4 2019;
- Transition to processing ore through Aldama at a higher unit cost per tonne compared to the previous quarter;
- The 2019 world-wide benchmark zinc concentrate treatment charge charged by smelters increased to \$245/tonne (up from \$147/tonne in 2018). The Company enjoyed the benefit of receiving the lower 2018 zinc concentrate treatment charge up to the end of Q2 2019, and moved to the new 2019 zinc benchmark terms contracted from Q3 2019; and
- Ore grade milled in September was lower than planned due to dilution from the development mining, which reduced the total zinc metal produced in concentrate. The lower tonnage of zinc metal produced in concentrate had a negative effect on the C1 operating cost in September. It is expected zinc head grade milled will increase in Q4 2019.

## Concentrate Sales

All zinc and lead concentrates produced were sold to local smelters and customers during September.

In total, 1,655 tonnes and 562 tonnes of zinc and lead concentrates respectively, were sold in the quarter. Some concentrate sales were delayed during September due to the higher than usual rainfall during the wet season in Chihuahua which delayed the shipment of concentrates. An additional 159 dry tonnes of zinc concentrate delivered and sold on 1 October 2019 which will be recognised as revenue in October 2019 in accordance with the IFRS accounting policies.

At the end of the quarter, 256 tonnes of zinc concentrate, and 106 tonnes of lead concentrate were stockpiled and scheduled for sale in October 2019.

## Exploration

During the quarter the exploration team developed drilling plans to complete the infill drilling of the SOX Inferred mineralisation between Level 7 and Level 9 to target conversion to a JORC Indicated mineral resource status, as this is the area where development mining has focused and stoping has begun in the December quarter. Exploration expenditure for the quarter was \$0.1 million.

Drill plans were also finalised to follow up the extension of mineralisation, 120m down dip of the current JORC resource, that was identified in drill hole LV5040 which intersected 3.7m (TW) at 37.5% Zn+Pb.

Infill drilling of both the SOX Resource and extension drilling down dip around LV5040 is planned to be completed in the December quarter.

## Corporate

### Acquisition of 100% of Plomosas

During the quarter, the Company closed the acquisition of the remaining 10% interest in its 90% owned subsidiary that holds the Plomosas Mine, Minera Latin American Zinc S.A.P.I de C.V. (MLAZ) with Retec Guarú S.A. de C.V. The consideration for the acquisition is a 1% Net Smelter Return Royalty (“NSR”) from the sale of zinc and lead concentrates produced from Plomosas.

### Placement and Rights Issue

During the quarter, the Company completed a Placement to new sophisticated and professional investors, raising A\$1.0 million (before costs) at A\$0.011 per share (the “Placement”) and announced a fully underwritten non-renounceable rights issue of 1 new share for every 6 shares held at an issue price of A\$0.011 per share to raise A\$2.48 million (before costs) (the “Rights Issue”). The Rights Issue closed on 4<sup>th</sup> October 2019, with the Rights Issue shares issued on 10<sup>th</sup> October 2019.

### Cash

The Company’s closing cash at the end of the quarter was \$0.30 million (prior quarter \$0.20 million) excluding the A\$2.48 million raised from the Rights issue which closed post quarter end.

### Trade receivables

The Company’s trade receivables due from the sale of zinc and lead concentrates was \$0.34 million (prior quarter \$0.00 million) and VAT refundable of \$1.05 million (prior quarter \$1.09 million).

The VAT refunds are in the process of being recovered through a combination of cash refunds and credits offsetting future VAT payable on the sale of concentrates in each calendar month.

### Convertible Notes

During the quarter, A\$1.762 million of convertible notes and capitalised interest were converted to fully paid ordinary shares at a conversion price of A\$0.01 per share. The closing balance of convertible notes on issue at the end of the quarter was A\$1.186 million inclusive of capitalised interest.

The convertible notes on issue have a principal value of A\$1.052 million, with:

- A\$0.900 million with a maturity 30 June 2020 at a conversion price of A\$ 1.0 cent per share;
- A\$0.152 million with a maturity date of 27 August 2020 at a conversion price of A\$ 1.5 cent per share; and
- All convertible notes on issue are held by entities related to the non-executive Chairman, Mr Stephen Copulos

### Unsecured borrowings

The Company has A\$800,000 unsecured loan facilities fully drawn (prior quarter A\$800,000) from entities related to the Company’s directors, Mr Stephen Copulos and Mr Andrew Richards, with a maturity date of 30 June 2020. The terms of the unsecured facilities are a 10% interest rate maturing on 30 June 2020. It is the intention of CZL to repay these loans out of proceeds from the Rights issue subject to retention of sufficient cash as good fiscal management demands.

30 October 2019

For and on behalf of Consolidated Zinc Limited



Brad Marwood  
Managing Director

#### **ABOUT CONSOLIDATED ZINC**

Consolidated Zinc Limited (ASX: CZL) owns 100% of the historic Plomosas Mine, located 120km from Chihuahua City, Chihuahua State. Chihuahua State has a strong mining sector with other large base and precious metal projects in operation within the state. Historical mining at Plomosas between 1945 and 1974 extracted over 2 million tonnes of ore grading 22% Zn+Pb and over 80g/t Ag. Only small-scale mining continued to the present day and the mineralised zones remain open at depth and along strike.

The company has recommenced mining at Plomosas and is committed to exploit the potential of the high-grade Zinc, Lead and Silver Mineral Resource through the identification, exploration and exploitation of new zones of mineralisation within and adjacent to the known mineralisation with a view to identify new mineral resources that are exploitable.

#### **Caution Regarding Forward Looking Statements and Forward-Looking Information:**

*This report contains forward looking statements and forward-looking information, which are based on assumptions and judgments of management regarding future events and results. Such forward-looking statements and forward-looking information involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the actual market prices of zinc and lead, the actual results of current exploration, the availability of debt and equity financing, the volatility in global financial markets, the actual results of future mining, processing and development activities, receipt of regulatory approvals as and when required and changes in project parameters as plans continue to be evaluated.*

*Except as required by law or regulation (including the ASX Listing Rules), Consolidated Zinc undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward-looking statements.*

#### **Production Targets:**

*Production targets referred to in this report are underpinned by estimated Mineral Resources which have been prepared by competent persons in accordance with the requirements of the JORC Code. The production targets in this report are sourced from both Indicated and Inferred Mineral Resources and it should be noted that there is a low geological confidence associated with Inferred Mineral Resources and there is no certainty that further exploration work will result in the determination of Indicated Mineral Resources or that the production target will be realised.*

*There is a low level of geological confidence associated with Inferred Mineral Resources and there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised. The stated production target is based on the Company's current expectations of future results or events and should not be solely relied upon by investors when making investment decisions. Further evaluation work and appropriate studies are required to establish sufficient confidence that this target will be met.*

#### **Competent Person Statement:**

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

*The information in this report that relates to the Mineral Resources were first reported by the Company in compliance with JORC 2012 in market release dated 30 April 2018.*

*The Company confirms that it is not aware of any new information or data that materially affects the information included in the market announcements referred to above and further confirms that all material assumptions and technical parameters underpinning the ore reserve and mineral resource estimates contained in those market releases continue to apply and have not materially changed.*