



**ABN 27 118 554 359**

# **Interim Financial Report**

**For the six months ended**

**30 June 2020**



## CORPORATE DIRECTORY

DIRECTORS	Mr Andrew Richards – Non-Executive Chairman Mr Brad Marwood – Managing Director Mrs Angela Pankhurst – Non-Executive Director
COMPANY SECRETARY	Mr Anthony Italiano
PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE	Level 2 35 Outram Street WEST PERTH WA 6005
SHARE REGISTRY	Link Market Services Limited Level 4 152 St George's Terrace PERTH WA 6000 +61 8 9211 6670
SECURITIES EXCHANGE (ASX: CZL)	Australian Securities Exchange Level 40 152-158 St George's Terrace PERTH WA 6000
SOLICITORS	AGH Law Level 2, 66 Kings Park Road WEST PERTH WA 6005
AUDITORS	HLB Mann Judd Level 4 130 Stirling Street PERTH WA 6000
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## DIRECTORS' REPORT

The directors present the financial report of Consolidated Zinc Limited (the "Company") and controlled entities (the "Group") for the half year ended 30 June 2020 (the "reporting period").

### DIRECTORS

Mr Andrew Richards – Non-Executive Chairman

Mr Brad Marwood – Managing Director

Mrs Angela Pankhurst – Non-Executive Director

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

### COMPANY SECRETARY

Mr Anthony Italiano

### PRINCIPAL ACTIVITIES

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

### REVIEW OF OPERATIONS

#### **MEXICO – The Plomosas Project**

During the reporting period, the Group focused on its flagship high grade zinc-lead-silver Plomosas mine in the state of Chihuahua. Chihuahua hosts a prolific zinc-lead mineralised belt, and Plomosas has been mined periodically since 1943. The Group brought the mine back into production in September 2018.

The Plomosas Project covers 12 Exploration and Exploitation Concessions totalling 3,019ha in area with an extensive history of exploration and development in base metal operations. Plomosas is in the northern Mexican state of Chihuahua, which neighbours Texas, USA, and is accessed by a two-hour

DIRECTORS' REPORT

flight from Dallas (Figures 1 to 3). Records show the Plomosas Project to be in the global zinc industry's upper quartile for grade, with approx. 2.5 million tonnes of ore having been mined since 1943, with average historical grades of 15-25% Zinc (Zn) + 2-7% Lead (Pb) with 40-60 g/t Silver (Ag) and clean mineralogy.

Consolidated Zinc acquired a 51% equity ownership of Plomosas in 2015 and increased its ownership to 90% in December 2018 through an increased shareholding in Minera Latin American Zinc S.A.P.I. de C.V. ("MLAZ"). In September 2019 CZL acquired the remaining 10% interest in MLAZ, consolidating ownership of the Plomosas Project to 100%.

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

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

Prior to CZL's restart of production, Plomosas had been mined in several stages since 1943 down to approximately 240 metres below surface via room and pillar stopes using traditional air leg drill and blast techniques. In places, historical production realised approximately 20,000 tonnes mineralisation per vertical metre with remnant material remaining. The mineralisation continues at depth and there is more than 7km strike of prospective stratigraphic horizon within the tenement package providing for excellent exploration potential and drill targeting outside the mine environment.

CZL announced a maiden mineral resource for Plomosas in December 2016, which was subsequently upgraded and increased to 1.178Mt grading 16.1% Zn+Pb and 22.2 g/t Ag comprised of both Indicated



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

## DIRECTORS' REPORT

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

During the last quarter of 2019 rock chip samples were taken from areas within the Project which appear highly prospective for gold. Assays up to 61.0 g/t Au and 27.5 g/t Au were returned in Q1 2020 (further details under Regional Exploration).



Figure 2. Plomosas Project tenement plan.



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



**DIRECTORS' REPORT**

**MINING OPERATIONS**

During the reporting period, ore mined was 12,562 tonnes at 16.4% zinc and 8.6% lead. Waste mined was 2,183 tonnes, with 280 metres of underground development.

Mining activities included on-ore development and stope mining of the semi-oxide ore ("SOX") between Level 7 and Level 9 using room and pillar mining with gallery stopes developed where the ground support allows. The rises between sublevel 888mRL and sublevel 921m RL provide access into the stoping areas.

Ore mining during the reporting period was significantly impacted by the Mexican government decree to suspend all non-essential operations in Mexico due to COVID-19. The Mexican government has subsequently re-classified mining as an essential operation, however, the Plomosas operations were suspended for 76 days whilst mining was classified as non-essential operation.

**PROCESSING**

A total of 12,332 tonnes of ore were processed, with 1,022 tonnes of payable zinc, 248 tonnes of payable lead and 455 ounces of payable silver sold in zinc and lead concentrates.

All processing was done under toll treatment arrangements with the third party toll treatment provider Triturado y Minerales La Piedrera S.A. de CV, which operates the Aldama concentrator facility (the "Aldama Plant"), located close to the Plomosas Mine.

Significant operational improvements were made at the Aldama concentrator under the Company's guidance during the Covid19 required shutdown. The maintenance team improved the crushing circuit availability, while the plant pumping systems and flotation mechanics were serviced. These works resulted in a significant improvement of availability on restart with 94.5% availability versus 68% availability prior to the shutdown.

Operations did not recommence until 21 June 2020 due to the COVID-19 impacts on the supply of key equipment and personnel availability.

At the end of the reporting period inventory stockpiles were 1,087 tonnes of ROM ore available for processing and 293 tonnes of zinc concentrate and 100 tonnes of lead concentrate available for sale.

**RESOURCE UPDATE**

The Company announced the results from the incorporation of the Inferred to Indicated resource category conversion drilling into the updated resource model. Refer to the ASX announcement dated 29 April 2020 for full details.

**TABLE 2: PLOMOSAS APRIL 2020 JORC (2012) MINERAL RESOURCE**
**AS DEPLETED DECEMBER 2019 3% ZN CUT-OFF**

Prospect	Indicated Mineral Resource						
	Tonnes	%Zn	%Pb	g/t Ag	Zn tonnes	Pb tonnes	Ag oz
Level 7	107,000	19.7	9.5	557.7	17,000	8,000	157,000
Tres Amigos	42,000	7.7	2.3	12.0	3,000	1,000	16,000
Tres Amigos North	38,000	7.8	3.6	13.1	3,000	1,000	16,000
<b>Sub Total</b>	<b>165,000</b>	<b>13.9</b>	<b>6.3</b>	<b>325.7</b>	<b>23,000</b>	<b>10,000</b>	<b>189,000</b>
	Inferred Mineral Resource						
	Tonnes	%Zn	%Pb	g/t Ag	Zn tonnes	Pb tonnes	Ag oz
Level 7	146,000	13.6	6.4	31.7	20,000	9,000	149,000
Tres Amigos	439,000	14.0	1.2	11.6	62,000	5,000	163,000
Tres Amigos North	78,000	10.1	3.6	16.7	8,000	3,000	42,000
Carola	59,000	11.5	5.1	31.4	7,000	3,000	60,000
Las Espadas	77,000	10.5	4.2	14.8	8,000	3,000	36,000
<b>Sub Total</b>	<b>799,000</b>	<b>13.0</b>	<b>3.0</b>	<b>17.5</b>	<b>104,000</b>	<b>24,000</b>	<b>450,000</b>
	Total Mineral Resource						
	Tonnage	Zn	Pb	Ag	Zn	Pb	Ag
Level 7	231,000	15.8	7.6	41.2	37,000	17,000	306,000
Tres Amigos	481,000	13.5	1.3	11.6	65,000	6,000	179,000
Tres Amigos North	116,000	9.4	3.6	15.5	11,000	4,000	58,000
Carola	59,000	11.5	5.1	31.4	7,000	3,000	60,000
Las Espadas	77,000	10.5	4.2	14.8	8,000	3,000	36,000
<b>Total</b>	<b>964,000</b>	<b>13.25</b>	<b>3.5</b>	<b>20.6</b>	<b>127,000</b>	<b>34,000</b>	<b>639,000</b>

## REGIONAL EXPLORATION

Regional exploration during the quarter has demonstrated the presence of high-grade, narrow vein gold mineralisation that pinches and swells along strike. Three separate areas of gold mineralisation have been identified for initial follow up and more work is planned to confirm and identify additional targets.

At the La Chona- Enrique prospect, the veins swell to over 1.5m width and previous mining has seen the development of stopes to 16 metres depth.

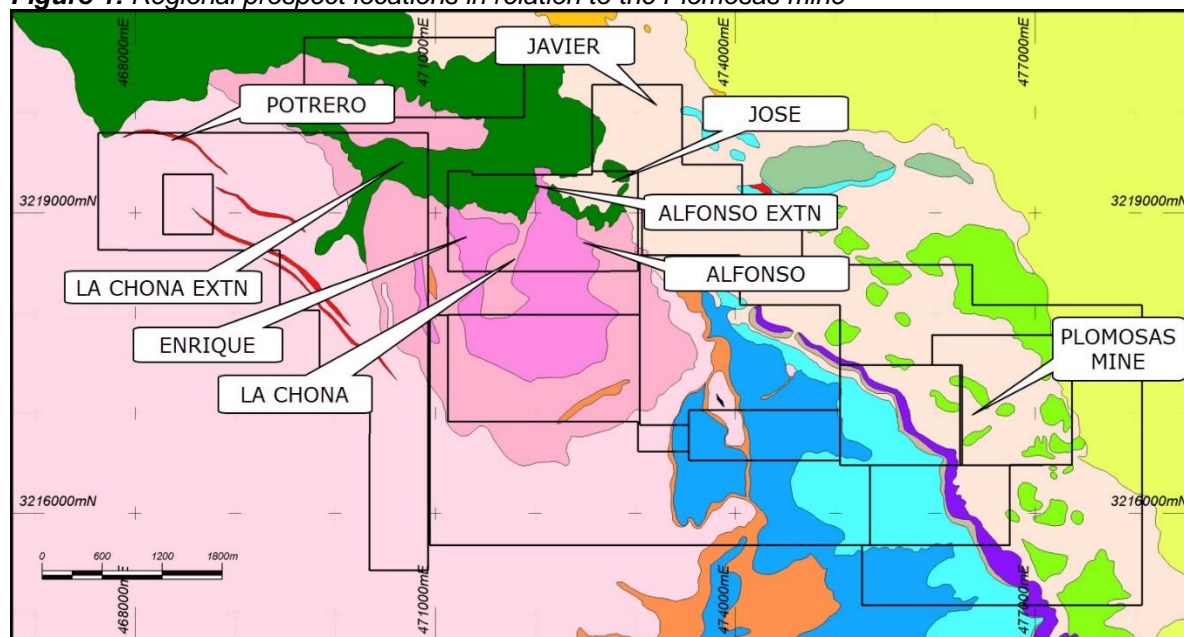
The Potrero prospect contains gold veins which have been mined along 300 metres of continuous surface veins at a time when no modern exploration techniques were applied.

The Northern Extension Targets comprising the Javier, Jose and Alfonso prospects where a felsic intrusion appears to have been truncated by regional deformation faulting may host classic traps for gold fluid to pool.

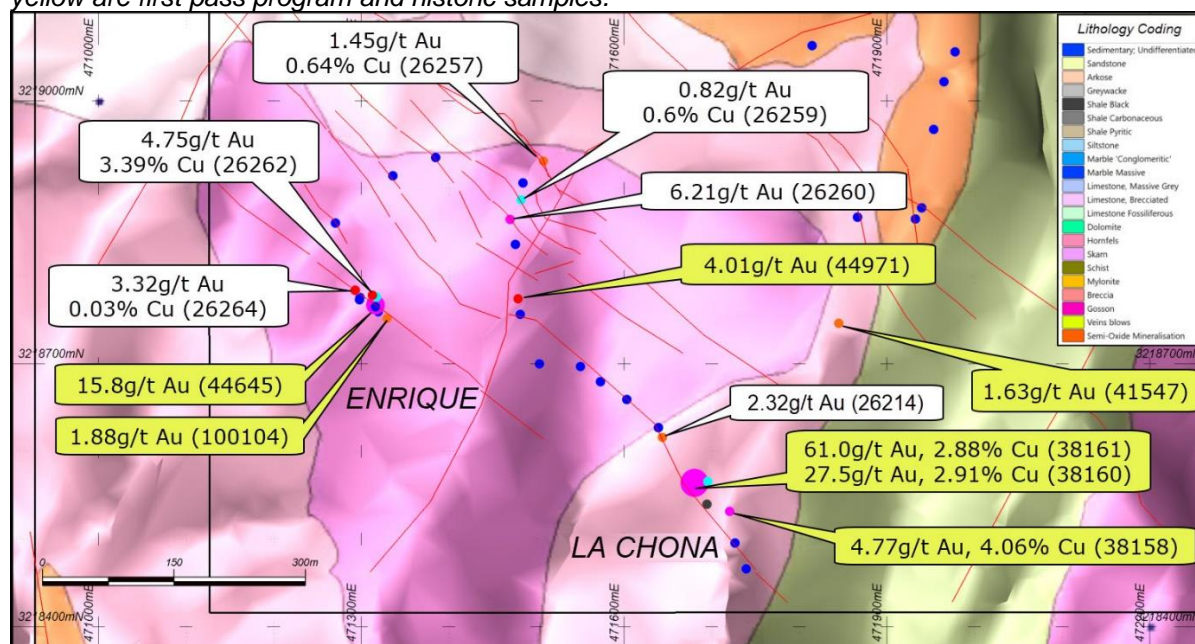
At all of these priority prospects, further work is planned to better understand the gold mineralisation and define targets prior to drilling. A scope of works has been defined and once COVID-19 restrictions allow for the mobilisation of exploration personnel to site, the Company plans to re-commence planned exploration prior to drilling the targets later this year.



**Figure 1: Regional prospect locations in relation to the Plomosas mine**



**Figure 2: Location of the sampling points with assays along the La Chona-Enrique trend. Sampling to the north has shown that there are sub-parallel structures to the La Chona-Enrique trend. Samples in yellow are first pass program and historic samples.**



Refer to the ASX announcement dated 23 April 2020 for the full details of the gold regional exploration results.

**DIRECTORS' REPORT****Financial Performance and Financial Position**

The net loss of the consolidated entity after income tax for the half year ended 30 June 2020 was US\$2.118 million (six months to 30 June 2019: profit of US\$0.561 million).

As at 30 June 2020, the Group had total assets of US\$4.142 million (31 December 2019: US\$5.092 million) and total liabilities of US\$3.789 million (31 December 2019: US\$4.373 million). Total cash was US\$0.768 million (December 2019: US\$0.529 million) and borrowings were US\$0.984 million (31 December 2019: US\$1.258 million).

**SUBSEQUENT EVENTS**

Other than set out below, no matters or circumstances have arisen since the end of the period ended 30 June 2020 which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods:

- On 2 July 2020, the Company announced it had entered into an agreement to consolidate the financing facilities provided by the Copulos Group. Existing unsecured loans and maturing convertible notes totalling A\$1,127,826 (inclusive of capitalised interest) are to be consolidated into new convertible notes with a maturity date of 30 June 2022, interest rate of 10.0% per annum and a conversion price of A\$0.003 per share. The new convertible notes were subject to shareholder approval, which was approved at the AGM held on 31 July 2020.

**AUDITOR'S INDEPENDENCE**

Section 307C of the Corporations Act 2001, requires our Auditors, HLB Mann Judd, to provide the Directors with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 29 and forms part of the Directors' report for the half year ended 30 June 2020.

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



Brad Marwood

Managing Director

11 September 2020

**COMPETENT PERSON STATEMENT**

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



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

For the six months ended 30 June 2020

	Note	For the six months ended 30-Jun-20 USD	For the six months ended 30-Jun-19 USD
Sales revenue		1,636,388	4,201,410
Cost of sales		(2,040,454)	(3,633,505)
		(404,066)	567,905
Other income		104,858	60,759
Exploration and evaluation expenses		(241,951)	-
Administrative expense	4(b)	(540,163)	(239,437)
Personnel expenses	4(c)	(342,791)	(766,469)
Foreign exchange gain/(loss)		(544,138)	(91,731)
Fair value of financial instruments through profit or loss	4(d)	123,576	1,154,100
Interest expense		(272,989)	(124,548)
<b>(Loss)/Profit from continuing operations before income tax expense</b>		<b>(2,117,664)</b>	<b>560,579</b>
Income tax expense		-	-
(Loss)/Profit from continuing operations after income tax expense		(2,117,664)	560,579
<b>Net (loss)/profit for the year</b>		<b>(2,117,664)</b>	<b>560,579</b>
<b>Attributable to:</b>			
Equity holders of the parent entity		(2,117,664)	613,065
Non-controlling interests		-	(52,486)
Profit/(loss) for the year		<b>(2,117,664)</b>	<b>560,579</b>
<b>Other comprehensive items that may be reclassified to profit or loss, attributable to:</b>			
Equity holders of the parent entity		-	-
Non-controlling interests		-	-
<b>Total other comprehensive (loss)/income for the year</b>		<b>(2,117,664)</b>	<b>560,579</b>
<b>Total comprehensive (loss)/income attributable to:</b>			
Equity holders of the parent entity		(2,117,664)	613,065
Non-controlling interests		-	(52,486)
<b>Total comprehensive loss for the year</b>		<b>(2,117,664)</b>	<b>560,579</b>
<b>(Loss)/earnings per share for loss attributable to the ordinary equity holders of the parent entity:</b>			
Basic and diluted (loss)/earnings per share (cents per share)		(0.117)	0.052

*The accompanying notes form part of these financial accounts*



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	As at 30-Jun-20 USD	As at 31-Dec-19 USD \$
<b>Assets</b>			
<i>Current assets</i>			
Cash & cash equivalents		768,717	529,686
Trade & other receivables	5	1,218,848	2,131,995
Inventory	6	460,214	442,010
Financial assets		6,018	1,101
<b>Total current assets</b>		<b>2,453,797</b>	<b>3,104,792</b>
<i>Non-current assets</i>			
Trade & other receivables	5	53,837	69,993
Property, plant & equipment	7 (a)	407,292	416,273
Right of use assets	7 (b)	2,605	28,356
Mine and development property	7 (c)	1,224,052	1,472,767
<b>Total non-current assets</b>		<b>1,687,786</b>	<b>1,987,389</b>
<b>Total assets</b>		<b>4,141,583</b>	<b>5,092,181</b>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Trade & other payables	8	2,800,704	2,957,818
Borrowings	9	983,921	1,258,160
Lease liability		2,807	30,989
Derivative liabilities	9(a)(i)	2,119	125,695
<b>Total current liabilities</b>		<b>3,789,551</b>	<b>4,372,662</b>
<b>Total liabilities</b>		<b>3,789,551</b>	<b>4,372,662</b>
<b>Net assets</b>		<b>352,032</b>	<b>719,519</b>
<b>Equity</b>			
Issued capital	10	32,626,197	30,931,000
Reserves		(6,995,227)	(7,050,207)
Accumulated losses		(25,278,938)	(23,161,274)
<b>Total equity</b>		<b>352,032</b>	<b>719,519</b>

The accompanying notes form part of these financial accounts



## Interim Financial Report for the six months ended 30 June 2020

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Issued capital	Accumulated losses	Share-based Payments Reserve	Foreign Currency Translation Reserve	NCI Reserve	Total
	USD	USD	USD	USD	USD	USD
<b>For the six months ended 30 June 2020</b>						
<b>At 31 December 2019</b>	30,931,000	(23,161,274)	463,196	(1,007,123)	(6,506,280)	719,519
Loss for the year after income tax from continuing operations	-	(2,117,664)	-	-	-	(1,910,757)
Other comprehensive (loss) for the year	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	(2,117,664)	-	-	-	(1,910,757)
<b>Transactions with owners in their capacity as owners:</b>						
Issue of new shares net of issuance costs	1,542,212	-	-	-	-	1,542,213
Conversion of convertible note - net of costs	170,508	-	-	-	-	170,508
Share based payments	(17,523)	-	54,980	-	-	37,457
	1,695,197	-	54,980	-	-	1,750,177
<b>At 30 June 2020</b>	32,626,197	(25,278,938)	518,176	(1,007,123)	(6,506,280)	352,032

*The accompanying notes form part of these financial accounts*



## Interim Financial Report for the six months ended 30 June 2020

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 (continued)

	Issued capital	Accumulated losses	Share-based Payments Reserve	Foreign Currency Translation Reserve	NCI Reserve	Owners of the Parent	Non-controlling Interest	Total
	USD	USD	USD	USD	USD	USD	USD	USD
<b>For the six months ended 30 June 2019</b>								
<b>At 31 December 2018</b>	27,522,537	(22,013,833)	162,104	(1,007,123)	(5,537,156)	(873,471)	(832,067)	(1,705,538)
Implementation of AASB 16	-	(3,215)	-	-	-	(3,215)	-	(3,215)
<b>At 31 December 2018*</b>	27,522,537	(22,017,048)	162,104	(1,007,123)	(5,537,156)	(876,686)	(832,067)	(1,708,753)
Profit for the year after income tax from continuing operations	-	613,065	-	-	-	613,065	(52,486)	560,579
<b>Total comprehensive income for the year</b>	-	613,065	-	-	-	613,065	(52,486)	560,579
<b>Transactions with owners in their capacity as owners:</b>								
Conversion of convertible note	61,270	-	-	-	-	61,270	-	61,270
Exercise of performance rights	55,777	-	(55,777)	-	-	-	-	-
Expiry of performance rights	-	11,501	(11,501)	-	-	-	-	-
Share based payments	-	-	174,279	-	-	174,279	-	174,279
	117,047	11,501	107,001	-	-	235,549	-	235,549
<b>At 30 June 2019</b>	27,639,587	(21,392,482)	269,105	(1,007,123)	(5,537,156)	(28,072)	(884,553)	(912,625)

*The accompanying notes form part of these financial accounts*



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30-Jun-20 USD	For the six months ended 30-Jun-19 USD
<b>Cash flows from operating activities</b>		
Receipt from customers	2,135,967	4,826,116
Payments to suppliers and employees	(3,094,361)	(4,409,976)
Payment of interest	(27,527)	(14,422)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(985,921)</b>	<b>401,718</b>
<b>Cash flows from investing activities</b>		
Payment for property, plant and equipment	(20,709)	(44,509)
Payment for development	-	(217,848)
<b>Net cash (outflow) from investing activities</b>	<b>(20,709)</b>	<b>(262,357)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	1,281,213	-
Proceeds from borrowings	261,000	210,390
Repayment of borrowings	-	(331,363)
Repayment of convertible notes	(137,260)	-
Payment of capital raising expenses	(159,292)	-
<b>Net cash inflow/(outflow) from financing activities</b>	<b>1,245,661</b>	<b>(120,973)</b>
Net increase/(decrease) in cash and cash equivalents	239,031	18,388
Foreign currency translation	-	-
Cash and cash equivalents at the beginning of the year	529,686	184,826
<b>Cash and cash equivalents at the end of the year</b>	<b>768,717</b>	<b>203,214</b>

*The accompanying notes form part of these financial accounts*



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### **Statement of compliance**

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

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

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 31 December 2019 and any public announcements made by the Company and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

#### **Basis of preparation**

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

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

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

#### **Accounting policies and methods of computation**

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

#### **Adoption of new and revised standards**

##### *Standards and Interpretations applicable to 30 June 2020*

In the reporting period ended 30 June 2020, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting period. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and, therefore, no material change is necessary to Group accounting policies.

##### *Standards and interpretations in issue not yet adopted*

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the period ended 30 June 2020. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.



**Significant accounting judgments and key estimates**

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

In preparing this interim report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 31 December 2019.

**Statement of compliance**

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

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

**Going concern**

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

**Working Capital Deficiency**

As at balance date, the consolidated entity had a net working capital deficiency of \$1.336 million. Included in the working capital deficiency are current liabilities of \$3.789 million, which include \$0.984 million of convertible notes and borrowings and associated accrued interest payable and \$0.877 million of contract mining cost claims issued by Ganti that are in dispute by the Group.

The Directors believe the going concern assumption is appropriate, as at the date of this report:

- The assumptions utilised in the cashflow forecast (the forecast zinc/lead prices, production volumes and operating costs) demonstrate surplus cashflow generated by mining will be sufficient to repay the unsecured loans and other current liabilities; and
- On 31 July 2020, shareholder approval was obtained at the AGM to consolidate the finance facilities provided by the Copulos Group, converting existing unsecured loans and maturing convertible notes totalling A\$1,127,826 (inclusive of capitalised interest) into new convertible notes with a maturity date of 30 June 2022, interest rate of 10.0% per annum and a conversion price of A\$0.003 per share; and
- The assumptions utilised in the cashflow forecast are based on no further adverse impacts of the COVID-19 pandemic. This includes an assumption of no COVID-19 cases at the Plomosas operations or any Mexican Government actions to suspend mining and support services as occurred during April and May 2020.

Based on the above, the Directors have reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and the Directors consider that the going concern basis of preparation to be appropriate for these financial statements.

Should these events not be completed, production forecasts achieved or any adverse impacts of COVID-19 on the Plomosas operations, there is a material uncertainty that may cast significant doubt

## Interim Financial Report for the six months ended 30 June 2020

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

as to whether the Company will be able to realise its assets and extinguish its liabilities in the normal course of business.

## 2. OPERATING SEGMENTS

The Group considers that it has only operated in one reportable segment, being minerals exploration, development and production in Mexico.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is the Managing Director is responsible for allocating resources and assessing performance of the operating segments.

## 3. DIVIDENDS

The Company did not pay or propose any dividends in the half year to 30 June 2020.

## 4. PROFIT AND LOSS INFORMATION

	For the six months ended 30-Jun-20 USD	For the six months ended 30-Jun-19 USD
a) Exploration & evaluation expenses	(241,951)	-
b) Administrative expenses		
Administration	(46,946)	(24,623)
Consultancy and legal expenses	(4,283)	(48,812)
Compliance and regulatory expenses	(41,727)	(55,340)
Communication	(5,360)	(9,689)
Covid-19 care and maintenance	(372,577)	-
Depreciation and amortisation	(15,740)	(15,768)
Occupancy	6,801	(2,448)
Travel and accommodation	(34,357)	(64,012)
Audit fees	(25,974)	(18,745)
	(540,163)	(239,437)
c) Personnel expenses		
Directors' fees	(259,038)	(224,882)
Employee expenses	(37,025)	(350,179)
Superannuation expense	(9,271)	(17,129)
Share-based payments	(37,457)	(174,279)
	(342,791)	(766,469)
d) Fair value of financial instruments through profit or loss		
Movement in fair value of derivatives	123,576	1,153,959
Movement in fair value of equity investments	-	141
	123,576	1,154,100

**5. TRADE AND OTHER RECEIVABLES**

	30-Jun-20 USD	31-Dec-19 USD
<i>Current</i>		
Trade receivables	143,368	701,754
Other receivable	3,404	32,818
Prepayments	67,283	119,435
Indirect taxes receivable <sup>1</sup>	964,793	1,237,887
Receivable from the Plomosas Project former joint venture partner <sup>2</sup>	40,000	40,101
	1,218,848	2,131,995
<i>Non-current</i>		
Receivable from the Plomosas Project minority holder <sup>2</sup>	53,837	69,993
	53,837	69,993

<sup>1</sup> The indirect tax receivable balances are mostly comprised of Value Added Tax (VAT) receivable in Mexico. The amount claimed in Mexico is expected to be released as either a cash refund or offset against VAT payable to the Mexican tax authorities.

<sup>2</sup> The outstanding receivable from the Plomosas Project former joint venture partner is repayable from 36 equal monthly from the 1% net smelter return royalty held by Retec Guarú S.A. ("Retec"). The current receivable includes the amount receivable within the next 12 months while the remaining balance is classified as non-current receivable. The royalty to Retec and the monthly deductions commenced from October 2019.

## Interim Financial Report for the six months ended 30 June 2020

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

#### 6. INVENTORY

	30-Jun-20 USD	31-Dec-19 USD
Warehouse inventory	107,061	143,871
Stockpiles	108,975	208,174
Concentrate	244,178	89,965
	460,214	442,010

#### 7. NON-CURRENT ASSETS

a) Property, plant and equipment	30-Jun-20 USD	31-Dec-19 USD
<b>Plant and Equipment</b>		
At cost	518,883	498,173
Accumulated depreciation	(111,591)	(81,900)
	407,292	416,273
<b>Movement in carrying amount</b>		
Balance at the beginning of the year	416,273	149,990
Additions	21,978	305,818
Depreciation expense	-	(278)
Depreciation in Cost of Sales	(30,959)	(39,257)
Balance at the end of the period/year	407,292	416,273

b) Right of use asset	30-Jun-20 USD	31-Dec-19 USD
Right of use asset	114,572	114,572
Accumulated amortisation	(111,967)	(61,911)
	2,605	52,661
<b>Movement in carrying amount</b>		
Carrying value at start of the period	28,356	76,967
Additions	-	-
Amortisation	(25,751)	(48,611)
Carrying value at the end of the period/year	2,605	28,356

The right of use asset was recognised on adoption of AASB16 *Leases* and is amortised over life of leases.

## Interim Financial Report for the six months ended 30 June 2020

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

#### 7. NON-CURRENT ASSETS (continued)

c) Mine and development property	30-Jun-20 USD	31-Dec-19 USD
<b>Mine and development property</b>		
At cost	1,625,872	1,903,926
Accumulated depreciation	(401,820)	(431,159)
	1,224,052	1,472,767
<b>Movement in carrying amount</b>		
Balance at the beginning of the year	1,472,767	1,110,851
Additions	153,105	793,075
Amortisation	(401,820)	(431,159)
Balance at the end of the period/year	1,224,052	1,472,767

#### Impairment

The Group has identified an impairment indicator on its Plomosas Zinc-Lead-Silver Project given the impacts of COVID-19 on zinc and lead prices and operational impacts during the six month period ending 30 June 2020. Accordingly, the mine and development property asset has been aligned to a cash generating unit for the purpose of assessing the recoverable amount.

The recoverable amount of the project was determined based on a value in use calculation using cash flow projections using financial budgets approved by management. The discount rate applied to the value in use assessment was 10%. Based upon the value in use assessment, an impairment charge was not required.

#### 8. TRADE AND OTHER PAYABLES

	30-Jun-20 USD	31-Dec-19 USD
Trade creditors	2,223,158	2,359,765
Other payables and accruals	490,235	413,733
Provision for Annual Leave	87,311	184,322
	2,800,704	2,957,820

The Company terminated the mining contract with the service provider ("Ganti") in November 2019. The Group has disputed the cost claims submitted by Ganti, as in the Company's opinion it is not in accordance with the mining contract. Rather than follow contractual dispute resolution scheme, Ganti submitted proceedings in the Federal District Court of Mexico claiming Mexican Peso 23,632,639 (inclusive of 16% VAT). The Group's Mexican subsidiary has recorded this claim in full, offset by the cost value of the illegal theft of inventory by Ganti in January 2020 with a net amount of US\$0.877 million recorded as a trade payable to Ganti.

Legal opinion received by the Company advised there is a strong probability of success at defending against Ganti's claims, at which point the Group will derecognise the liability to Ganti.

## Interim Financial Report for the six months ended 30 June 2020

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

#### 9. BORROWINGS

##### **Short-term borrowings**

		30-Jun-20 USD	31-Dec-19 USD
Convertible Notes	a)	356,292	648,613
Loans from related parties	b)	627,629	609,547
		983,921	1,258,160

##### **a) Convertible Notes**

	30-Jun-20 USD	31-Dec-19 USD
Convertible notes on issue	299,878	536,452
Interest payable on convertible notes	56,414	112,161
	356,292	648,613

##### **Movement in convertible notes on issue**

	(i)	30-Jun-20 USD	31-Dec-19 USD
Balance at the beginning of the year		536,452	1,362,143
Issued during the year		-	-
Notes converted to ordinary shares		(279,841)	(1,149,399)
Notes redeemed in cash		(137,260)	-
Accreted interest		197,184	248,282
Effect of foreign currency translation at period end		(16,657)	75,426
		299,878	536,452

##### **Movement in interest payable on convertible notes on issue**

	30-Jun-20 USD	31-Dec-19 USD
Balance at the beginning of the year	112,161	87,491
Interest on convertible notes for the period	35,492	139,543
Equity settled interest payable	(49,959)	(111,847)
Cash settled interest payable	(27,527)	-
Effect of foreign currency translation at period end	(13,753)	(3,026)
	56,414	112,161
	356,292	648,613

There were no issues of convertible notes during half year period ended 30 June 2020.

During the reporting period:

- an existing note of A\$424,258 plus capitalised interest of A\$75,742 was converted to 50,000,000 ordinary shares at 1.0 cent per share (in A\$ terms); and
- an existing note of A\$200,000 was fully repaid in cash on its redemption date of 30 June 2020 plus accrued interest.

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

## Interim Financial Report for the six months ended 30 June 2020

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

#### 9. BORROWINGS (continued)

##### (i) Derivative liability

	30-Jun-20 \$	31-Dec-19 USD
Opening balance	125,695	1,590,009
Fair value through profit or loss (note 4(d))	(123,576)	(1,451,080)
Effect of foreign currency translation at period end	-	(13,234)
Closing balance	2,119	125,695

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

##### b) Loans from related parties

	30-Jun-20 USD	31-Dec-19 USD
Loan principal	549,040	560,480
Interest payable	78,589	49,067
	627,629	609,547
<b><i>Movement in loans from related parties</i></b>		
Balance at the beginning of the year	560,480	352,630
Loan from directors	-	209,100
Effect of foreign currency translation at period end	(11,440)	(1,250)
	549,040	560,480
<b><i>Movement in interest on loans from related parties</i></b>		
Balance at the beginning of the year	49,067	968
Interest for the period	29,764	47,544
Effect of foreign currency translation at period end	(242)	555
	78,589	49,067
	627,629	609,547

- (i) During the half-year period ended 30 June 2020, the Company re-negotiated the repayment date of the existing loans from related parties to 30 June 2021. Subsequent to the reporting period, the existing unsecured loans plus capitalised interest from the Copulos Group of US\$329,800 were converted into convertible notes maturing on 30 June 2022, at an interest rate of 10.0% per annum and a conversion price of A\$0.003 per share.



## Interim Financial Report for the six months ended 30 June 2020

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

#### 10. ISSUED CAPITAL

##### a) Share capital

	30-Jun-20	30-Jun-20	31-Dec-19	31-Dec-19
	Number of shares	USD	Number of shares	USD
Ordinary shares paid net of costs	<b>2,491,224,944</b>	<b>32,626,197</b>	1,669,808,313	30,931,000

<i>Reconciliation of movement in Issued capital</i>		Issue price (A\$ cents)	Number of shares	USD
<b>Balance at 1 January 2019</b>			<b>1,165,339,694</b>	<b>27,522,537</b>
22-Jan-19	Convertible Note	1.20	7,096,333	61,270
22-Jan-19	Conversion of performance rights	1.67	1,500,000	17,614
24-Jan-19	Conversion of performance rights	1.67	2,950,000	34,640
19-Jun-19	Shares granted as remuneration	1.67	50,000	587
19-Jun-19	Conversion of performance rights	1.67	250,000	2,936
05-Aug-19	Conversion of Convertible note and interest	1.00	176,156,163	1,199,976
16-Sep-19	Placement shares	1.10	90,909,091	687,410
30-Sep-19	Rights issue	1.10	22,548,953	167,490
16-Oct-19	Rights issue	1.10	190,123,710	1,410,787
13-Nov-19	Rights issue	1.10	1,975,278	14,869
31-Dec-19	Rights issue	1.10	10,909,091	84,072
	Issuance costs		-	(273,188)
<b>Balance at 31 December 2019</b>			<b>1,669,808,313</b>	<b>30,931,000</b>
<b>Balance at 1 January 2020</b>			<b>1,669,808,313</b>	<b>30,931,000</b>
26-Feb-20	Conversion of Convertible note and interest	1.0	50,000,000	329,800
26-Feb-20	Shares granted as remuneration	0.7	3,875,000	17,891
26-Feb-20	Conversion of performance rights	-	2,250,000	-
1-Jun-20	Rights issue	0.3	575,311,631	1,149,446
18-Jun-20	Placement shares	0.3	190,000,000	392,767
	Issuance costs		-	(194,707)
<b>Balance at 30 June 2020</b>			<b>2,491,244,944</b>	<b>32,626,197</b>



## Interim Financial Report for the six months ended 30 June 2020

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

#### 10. ISSUED CAPITAL (continued)

##### b) Options over ordinary shares

	30-Jun-20	30-Jun-20	31-Dec-19	31-Dec-19
<i>Options over ordinary shares</i>	Number of options	Exercise price per option (A\$)	Number of options	Exercise price per option (A\$)
Outstanding at the beginning of the period	123,283,904	-	104,033,904	-
Granted – rights issue	575,311,631	0.006	-	-
Granted – underwriting/placement fee	15,000,000	0.006	20,000,000	0.02
Granted - unlisted employee options	-	-	1,250,000	0.06
Expired	(3,500,000)	0.06	(2,000,000)	0.06
Outstanding at the end of the period	<b>710,095,535</b>	-	<b>123,283,904</b>	-
<b>Exercisable at the end of the period</b>	<b>710,095,535</b>	-	<b>123,283,904</b>	-

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

Weighted average remaining life of options over ordinary shares is 30.9 months (31 December 2019: 12.67 months).

Weighted average price of the remaining options is A\$0.011 (31 December 2019: A\$0.04) per option.

##### c) Capital management

The Groups objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. The capital risk management policy remains unchanged from the 31 December 2019 Annual Report.

	30-Jun-20 USD	31-Dec-19 USD
Cash and cash equivalents	768,717	529,686
Financial assets	6,018	1,101
Inventory	460,214	442,010
Trade and other receivables	1,218,848	2,131,995
Trade and other payables	(2,800,704)	(2,957,820)
Borrowings	(983,921)	(1,258,160)
Lease liability	(2,807)	(30,987)
Derivatives	(2,119)	(125,695)
Working capital position	<b>(1,335,754)</b>	<b>(1,267,870)</b>

## 11. RELATED PARTIES

### a) Transactions with related parties

During the half-year ended 30 June 2020, the Group entered into an amendment to its loan agreement with its non-executive director Stephen Copulos and Mr Andrew Richards to extend the maturity date of the unsecured loans disclosed in Note 9(b) to 30 June 2021. All other terms of the unsecured loans remained the unchanged.

## 12. COMMITMENTS AND CONTINGENCIES

### a) Commitments

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

	30-Jun-2020 USD	31-Dec-2019 USD
not later than 12 months	161,288	161,288
between 12 months and 5 years	806,441	806,441
greater than 5 years	4,527,774	4,689,062
	<b>5,495,503</b>	<b>5,656,791</b>

### b) Contingencies

#### Contingent Assets

There are no contingent assets.

#### Contingent Liabilities

The Company announced on 10 August 2018 it received a claim by a company named Pandion Minerals Pty Ltd ("Pandion") pursuant to which Pandion claims to be conditionally entitled to 10% in the Plomosas Project in Mexico being free carried until the Definitive Feasibility Study ("DFS") is completed. The Plomosas Project is presently owned by a joint venture company Minera Latin America Zinc S.A.P.I de C.V. ("MLAZ"), in which the Group had a 51% interest. The pre-condition for the Pandion 10% to be issued is that the Company acquires a further 39% of MLAZ, of which the Company acquired on 24 December 2018.

Pandion relies on an alleged letter agreement dated 8 December 2014. The Company was not previously in possession of this alleged letter agreement and does not accept its authenticity.

The Company considers the claim to be unfounded, and, if the claim is pursued by Pandion, the Company will defend the claim vigorously.



## Interim Financial Report for the six months ended 30 June 2020

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

#### 13. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Other than set out below, no matters or circumstances have arisen since the end of the period ended 30 June 2020 which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods:

- On 2 July 2020, the Company announced it had entered into an agreement to consolidate the financing facilities provided by the Copulos Group. Existing unsecured loans and maturing convertible notes totalling A\$1,127,826 (inclusive of capitalised interest) are to be consolidated into new convertible notes with a maturity date of 30 June 2022, interest rate of 10.0% per annum and a conversion price of A\$0.003 per share. The new convertible notes were subject to shareholder approval, which was approved at the AGM held on 31 July 2020.

#### 14. FINANCIAL INSTRUMENTS

The Group has a number of financial instruments which are not measured at fair value on a recurring basis. The carrying amount of these financial instruments is approximately their fair value.



## DIRECTORS' DECLARATION

In the directors' opinion:

- (a) The financial statements and notes set out on pages 11 to 27 are in accordance with the *Corporations Act 2001*, including:
  - (i) Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  - (ii) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the half-year ended on that date and
- (b) There are reasonable grounds to believe that Consolidated Zinc Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

Brad Marwood  
Managing Director  
Perth  
11 September 2020

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Consolidated Zinc Limited for the half-year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Perth, Western Australia  
11 September 2020



**M R Ohm**  
Partner

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**INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of Consolidated Zinc Limited

**Report on the Condensed Interim Financial Report***Conclusion*

We have reviewed the accompanying interim financial report of Consolidated Zinc Limited ("the company") which comprises the condensed consolidated statement of financial position as at 30 June 2020, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Emphasis of matter - material uncertainty related to going concern*

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

*Directors' responsibility for the interim financial report*

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

*Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review

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is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

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

*HLB Mann Judd*

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

**Perth, Western Australia**  
**11 September 2020**



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