

## Teething problems at Plomosas but looking for a better 2H

Consolidated Zinc Ltd (CZL.ASX) is a junior mining and exploration company, holding a 100% interest in the Plomosas Zn-Pb-Ag mine in Chihuahua, Mexico, where commercial zinc production was re-established in Dec-2018. CZL has completed the construction of its own processing plant with operations commencing in 2Q, delivering initial zinc and lead concentrates. Commissioning issues are impacting operations, however, we understand post quarter processing rates are improving. Delivering plant nameplate is a critical path item to delivering stronger commercial outcomes and profitability from its high-grade operations. The remainder of 2021 should be considered a transitional year to higher stable and sustainable returns. By assuming greater, direct operational control at the mine, CZL is well positioned to benefit from stronger post-COVID economic growth and metals demand...as evidenced by continuing strong commodity prices.

### Business model

Consolidated Zinc is a junior minerals company with current production and cashflow from its 100% owned Plomosas mine located in Mexico and holding significant exploration tenements around the highly prospective Santa Eulalia mining district. We note the company is progressing exploration activity on trend from its current operations. The company's strategic plan to optimise economic returns at Plomosas through debottlenecking run of mine operations and producing concentrates through its purpose-built processing plant.

### Commissioning issues impact 2Q, performance is improving

As a transition year we expect mine and plant performance to improve over the remainder of 2021. Mining and processing rates are targeting 200tpd by end-2021, so there is significant productivity to be captured in the next 6 months or so. Reported mine EBITDA is small but positive. On a holistic basis, operations should be considered around cash neutral at this time and perhaps a base-case indicator. The current metrics point to the financial opportunity that can be unlocked through delivery of the organic growth strategy. Exploration continues along trend to the north-west of the mine and in particular the Mina Mexico Prospect, where historical mining data points to high grade Zn opportunities. Management is planning to complete mapping and survey activity in 3Q ahead of drilling evaluation later this year. Successful exploration can underpin a material expansion of operations...but delivery of Plomosas to nameplate is the priority.

### Valuation – a marginal downgrade on a softer 2021 outlook.

A likely slower ramp-up of mining operations through 2021 (with potential to flow through into early 2022) impacts our assumptions and valuation at the margin. We model a risked NAV of A\$39mn (A\$0.13/share) to the asset base against a **reference share price of A\$0.029/share** noting the fall from the recent peak (\$0.052/share) in May likely reflects market concerns with respect to cash and working capital constraints, we suggest. However, we would continue to highlight the strong NAV to share price premium, particularly should subsequent quarterlies reflect the expected improved operational performance. It's worth noting **we have been conservative in our model assumptions on both operating and metals pricing** and highlight, in our opinion, the upside potential to forecasts.

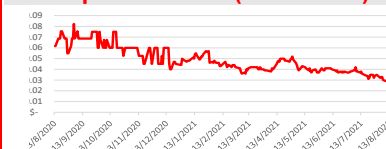
## Energy exploration & production

16<sup>th</sup> August 2021

### Share details

ASX Code	CZL
Share price (13 Aug)	\$0.028
Market Capitalisation	\$8.2M
Shares on issue	294M
Cash (as at 30-Jun)	\$0.25M
Free Float	~69%

### Share performance (12 months)



### Upside Case

- Delivery of operational improvements to nameplate and beyond – higher metal recovery/lower costs
- Progress on the 'northern' block evaluation – the potential to double resource tonnages.
- Metal prices higher than modelled through med-long term – the project is highly sensitive to price assumptions.

### Downside Case

- Mine operations underperform the guidance
- The global economic recovery is significantly slower than forecast with weaker demand for metals with consequent lower prices
- COVID shutdowns return impacting travel and the supply chain

### Board of Directors

Brad Marwood	Managing Director
Andrew Richards	Chairman
Angela Pankhurst	Executive Director

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## Plomosas inching forward. We expect further gains in to end-2021

The 2Q operational results represent the first step in the reset of Plomosas operations with the start-up of the Plomosas plant and the company aim to move to full control over mining and processing. Operational efficiency was somewhat below expectations but post quarter data suggests plant operations are improving and heading towards broad guidance of c.200tpd, which could be achieved by end-2021.

### Exhibit 1: June quarter highlights and comments

Production and revenue		1Q'21	2Q'21	YTD
Production was up QoQ and processing rates are improving although short of plan.	Ore Mined (t / tpd)	9,431 / 105	8,655 / 95	18,086 / 100
Aggregate inventory as of 30-Jun of 2,452t (ROM)	Ore Processed (t / tpd)	7,752 / 86	9,079 / 101	16,831 / 93
	Inventory Build (t)	1,679	(424)	1,255
	Plomosas plant		4,727	
	Aldama plant		4,352	
341t of Zn conc + 207t of Pb conc remain available for sale	Zn grade	12.4%	15.15	13.8%
	Pb grade	6.8%	7.4%	7.1%
	Ag grade (g/t)	45	54	51
1,446t of Zn conc + 265t Pb conc sold in the quarter	Payable Zn (t)	668	632	1,300
	Payable Pb (t)	139	158	297
	Payable Ag (g/t)	361	2,006	2,367
	C1 Cash Costs (\$/lb)	\$1.08	\$1.18	\$1.13
	Mine EBITDA (\$mn)	\$0.183	\$0.195	\$0.378
	Zn realised price (\$/lb)		\$1.32	\$1.26
Mining operations were a little softer through 2Q	2Q works continued on the installation of 2 <sup>nd</sup> stage pumps which is expected to carry into 3Q. Dewatering activity aims to lower the table to below the 800m RL for planned mining of Levels 9 & 10. At this stage the company has indicated the 2022 mine plan remains unchanged.			
Processing				
Improving but commissioning issues persist	<p>The construction of the Plomosas processing plant was completed in 1Q'21 with first output of Zn and Pb concentrates soon after. The Plomosas plant processed 4,353t with recovery of Zn to Zn conc of 52.5% (Pb recovery of 41.2%).</p> <p>Plomosas utility was lower than expected. Subsequent to end-Q, throughput has improved and we understand is currently operating at a rate &gt;4ktpm, with management confident of further growth to 200tpd by end 2021.</p> <p>Aldama continues to underperform with 2Q results impacted by "...the plant's treatment of ore from other sources and mechanical availability."</p> <p>Considering the underperformance of the contracted processing through the Aldama plant, it's expected that Aldama will only be utilised till run-of-mine stockpiles normalise.</p>			
Operating costs				
Unit cash costs rise through 2Q but largely a function of the fixed cost contribution	<p>We'd expect the unit costs to reduce as operations continue to ramp up. KEY impacts in 2Q included –</p> <ul style="list-style-type: none"><li>Increased price of deisel but offset by lower dewatering operations</li><li>Higher power costs from Plomosas plant operations</li><li>Weaker processing efficiencies over the period from plant interruptions</li><li>Lower processing throughput on a fixed cost base</li><li>Lower Pb recoveries – lower by product credits</li></ul>			
Corporate				
COVID	Management indicates little impact from the 'delta' variant. Mandatory testing and a positive vaccination take-up (local vax rates >50%) are assisting with day-day operations. Chihuahua State has been downgraded to 'orange' (from red) with mining deemed an essential service.			
Exploration expenditure for the period was \$61k	<p>Work progressed on the evaluation of the Alfonsitos and Mina Mexico exploration prospects located on structural trend with Plomosas and considered to have strong potential for Zn/Pb/Ag mineralisation. The Los Alfonsitos area has returned smaple grades ranging 11.5-23.5% Zn and 0.2-4.9% Pb.</p> <p>As reported the "...Mina) contains a stope where historical records indicate the average grade extracted was 22% zinc". The company is planning to complete mapping and survey activity in 3Q ahead of drilling evaluation before end-2021.</p>			
Cash and working capital	The cash balance as at 30-Jun was \$0.25mn. Working capital (inc receivables and inventory) stood at \$1.5mn			

Source: Company data; financial data in US\$

## Tweaking the valuation

We value CZL using a combination of a modelled NPV of the Plomosas Zinc Mine and a nominal value for exploration assets adjusted for our discretionary probability weighting (1-risk %), to derive a gross portfolio worth. Probability weightings are subject to change as the company delivers operational and exploration results. The assignment of probability weightings is subjective.

Where possible we model development outcomes based on broad guidance and historical precedents but note these are adjusted and overlain by a RaaS risk outlook reflecting our views of the technical and commercial uncertainties associated with delivering the projects as modelled.

**This aggregates at ~A\$39mn or A\$0.13/share on a stand-alone, ungeared basis.**

We note the weaker than modelled 2Q mining and processing results which has flow through impact to our 2021 and 2022 assumptions, with ramp to nameplate now expected to take longer...through early 2022. Management has indicated that subsequent to 30-Jun, plant performance in at Plomosas is continuing to improve with the monthly trend exhibiting growth in efficiency and utility. There is the potential for operations to improve above our revised assumptions, but that will only be evident as further quarterly data comes to hand.

**Exhibit 2: Zn prices – forward curve to Jul-2022 (extrapolated to RaaS long run estimate)**



Source: tradingeconomics.com

The negative impact of softer tonnages in 2021 and 2022 (at the margin) is somewhat offset by stronger commodity price assumptions based on forward curve data, which we extrapolate back to long run prices – Zn = US\$2,400/t, Pb = US\$1,650/t, Ag = US\$17/oz, AUD = 0.75.

We have assigned a probability factor to Plomosas to reflect 2021 as a transition year. Delivery of production and financial outcomes as modelled should unwind the risk discount over the course of the next 12 months.

**Exhibit 3: CZL NAV – increasing operational control can crystallise the NAV upside**

		Pr	A\$mn	A\$/share	
Plomosas	100%	80%	\$35	\$0.11	Risk weighting to reflect 2021 as an operational transition year, particularly with new processing plant in final stages of commissioning
Exploration	100%		\$7	\$0.02	
			<b>\$41</b>	<b>\$0.14</b>	
Net Cash/(Debt) at 31-Mar)			\$2	(\$0.01)	
Corporate			(\$3)	(\$0.01)	
<b>TOTAL</b>			<b>\$39</b>	<b>\$0.13</b>	
Shares issued (mn)*	301				

Source: RaaS analysis; Risked values based on look through Probabilities of Success (POS) for drilling and weighted by a RaaS risk overlay. Weightings at RaaS discretion.

## Exhibit 4: Financial Summary

CONSOLIDATED ZINC						CZN
YEAR END						Dec
NAV	A\$					\$0.13
SHARE PRICE	A\$					\$0.029
MARKET CAP	A\$M					8.7
ORDINARY SHARES	M					301
OPTIONS	M					70
COMMODITY ASSUMPTIONS						
	2019	2020	2021f	2022f	2023f	
Zinc			2,943	2,400	2,400	
Lead			2,236	1,650	1,650	
Silver			26	18.00	18.00	
AUD	0.6598	0.6989	0.7603	0.7502	0.7496	
RATIO ANALYSIS						
	2019	2020	2021f	2022f	2023f	
Shares Outstanding	M	1,670	238	301	301	301
EPS (pre sig items)	A\$ cps	(2.1)	(2.3)	3.2	4.1	3.6
EPS (post sig items)	A\$ cps					
PER (pre sig items)	x			0.9x	0.7x	0.8x
OCFPS	A\$ cps	(1.6)	(1.5)	4.1	4.5	4.3
CFR	x			0.7x	0.6x	0.7x
DPS	A\$ cps					
Dividend Yield	%					
BVPS	A\$ cps	nm	nm	2.9	6.2	9.0
Price/Book	x			0.0x	0.0x	0.0x
ROE	%			na	nm	31%
ROA	%			na	nm	28%
(Trailing) Debt/Cash	x					
Interest Cover	x					
Gross Profit/share	A\$ cps	nm	nm	3.5	3.9	3.8
EBITDAX	A\$M	(970)	(168)	13,999	15,757	15,314
EBITDAX Ratio	%	na	na	67%	56%	57%
EARNINGS						
	US\$000s	2019	2020	2021f	2022f	2023f
Revenue		7,589	4,525	15,857	20,979	20,092
Cost of sales		(8,285)	(4,807)	(5,213)	(9,158)	(8,613)
Gross Profit		(695)	(282)	10,644	11,821	11,480
Other revenue						
Other income						
Exploration written off		(180)	(308)	(1,500)	(1,000)	(1,600)
Finance costs		(461)	(734)	(500)		
Impairment		(100)				
Other expenses		89	(1,255)	(1,164)	(1,300)	(1,450)
Profit before tax		(1,293)	(2,415)	7,430	9,471	8,380
Taxes				0	0	0
NPAT Reported		(1,293)	(2,415)	7,430	9,471	8,380
Underlying Adjustments						
NPAT Underlying		(1,293)	(2,415)	7,430	9,471	8,380
CASHFLOW						
	US\$000s	2019	2020	2021f	2022f	2023f
Operational Cash Flow		(987)	(1,603)	9,435	10,461	9,970
Net Interest		(22)	(50)	(50)	0	0
Taxes Paid						
Other						
Net Operating Cashflow		(1,009)	(1,653)	9,385	10,461	9,970
Exploration			0	(1,500)	(1,000)	(1,600)
PP&E		(283)	(538)	(2,100)		
Development		(362)				
Net Asset Sales/other						
Net Investing Cashflow		(645)	(538)	(3,600)	(1,000)	(1,600)
Dividends Paid						
Net Debt Drawdown		(121)	11	(94)		
Equity Issues/(Buyback)		2,121	2,402			
Other						
Net Financing Cashflow		2,000	2,413	1,753	0	0
Net Change in Cash		345	222	7,537	9,461	8,370
BALANCE SHEET						
	US\$000s	2019	2020	2021f	2022f	2023f
Cash & Equivalents		530	753	8,290	17,751	26,120
PP&E & Development		1,917	2,051	2,051	2,051	2,653
Exploration						
Total Assets		5,092	5,291	11,841	21,303	30,282
Debt		1,258	94			
Total Liabilities		4,373	3,105	3,210	2,512	3,110
Total Net Assets/Equity		720	2,186	8,631	18,791	27,171
Cash/(Debt)		(728)	658	8,290	17,751	26,120
Gearing (dn/(dn+e))		50%	na	na	na	na

nm = not meaningful  
na = not applicable

priced COT 12-Aug

PRODUCTION						2019	2020	2021f	2022f	2023f
Product										
Zinc	t					3,243	2,309	4,987	9,362	8,842
Lead	t					769	710	1,673	3,833	3,833
Silver	oz					10,040	864	20,230	49,657	44,691
TOTAL										
Ave Unit Production Cost	per t Zn (payable)	(2,555)	(2,082)	(1,045)	(978)	(974)				
Ave Unit Revenue	per t Zn (payable)	2,340	1,960	3,179	2,241	2,272				
Operating Margin		na	na	67%	56%	57%				

RESERVES & RESOURCES						Mar-2021				
Mining Levels						Indicated		Inferred		
		Zn	Pb	Ag		Zn	Pb	Ag		
		t	%	%	g/t	t	%	%	g/t	
Level 7		72,000	19.4%	9.3%	57.0	136,000	13.2%	6.1%	30.9	
Tres Amigos		42,000	7.7%	2.3%	12.0	439,000	14.0%	1.2%	11.6	
Carola						59,000	11.5%	5.1%	31.4	
Las Espadas						77,000	10.5%	4.2%	14.8	
Tres Amigos North		38,000	7.8%	3.6%	13.1	78,000	10.1%	3.6%	16.7	
		152,000	13.3%	5.9%	33.6	789,000	12.9%	2.9%	17.2	
Contained Metal										
		t	t	oz		t	t	oz		
Level 7		13,968	6,696	131,947		17,952	8,296	135,110		
Tres Amigos		3,234	966	16,204		61,460	5,268	163,724		
Carola						6,785	3,009	59,562		
Las Espadas						8,085	3,234	36,639		
Tres Amigos North		2,964	1,368	16,005		7,878	2,808	41,880		
		20,166	9,030	164,155		102,160	22,615	436,916		

EQUITY VALUATION						Interest	Pr	A\$M	Acps
Plomosos						100%	80%	\$35	\$0.11
Exploration						100%	25%	\$7	\$0.02
								\$41	\$0.14
Net Cash/(debt)								\$0	
Corporate costs								(\$3)	P/NAV
TOTAL								\$39	\$0.13
Cash Producing Assets									0.23

Source: RaaS Advisory, Company data

# FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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Effective Date: 6<sup>th</sup> May 2021

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