

28 April 2010



**ZincOx Resources plc**  
("ZincOx", "the Company" or "the Group")

## **Preliminary Announcement of Results**

**Year ended 31 December 2009**

ZincOx Resources plc (AIM Ticker: ZOX) which specialises in the low cost recovery of high grade zinc compounds from unconventional sources, today announces its results for the year ended 31 December 2009.

### **Highlights**

- Recycling development re-started
- Purchase of recycling equipment including rotary hearth furnace
- Approximately £47 million in cash reserves at the end of 2009

Commenting today Andrew Woollett, Executive Chairman, said:

"We have been able to re-start our first recycling development and remain convinced that this innovative approach presents a significant opportunity to produce low cost zinc on a sustainable basis."

**For more information please go to [www.zincox.com](http://www.zincox.com) or contact:**

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# ZincOx Resources plc Annual Report 2009

## Chairman's Statement

2009 was another tough year for the world economy and, needless to say, this had a significant impact on the way in which ZincOx was managed. Our overriding concern was to make sure that the Company remained in a sound financial state and was in a position to move forward rapidly as soon as the crisis began to recede.

The economic turmoil led to the withdrawal of our debt financing for Jabali and required us to defer the development of our first recycling plant. However I am delighted to report that the recycling project has been successfully restructured to create more value and that the development has recently restarted.

The Group made a loss attributable to shareholders in 2009 of £2.6 million (2008: profit of £4.6 million). However, ZincOx remains in a strong financial position having approximately £47 million in cash as at the end of 2009.

### Ohio Recycling Project

In the late autumn of 2008, metal prices, including zinc, plummeted and the value of the Shaimerden deferred payments that had been anticipated as part of the financing for the Ohio Recycling Project ("ORP") were reduced and the financing was compromised. The economic crisis had a dramatic effect on the demand for steel in the USA such that in early 2009 production dropped to 45% of capacity with a similar reduction in the tonnage of the waste that will form the feed for ORP. Given the financial and feed shortfalls and notwithstanding the huge amount of planning that had gone into ORP it was only with a great deal of reluctance and after taking soundings from our major shareholders that your Board decided to postpone the development of the Ohio Recycling Project.

We immediately set about trying to reconfigure the project so as to reduce the capital requirement. By September 2009 it seemed that the worst of the economic crisis was over in the USA and this was reflected in the consistently increasing monthly steel output. We became increasingly confident that we could purchase a large amount of second hand equipment which would significantly reduce the capital cost and that we would therefore be able to fund the project with our cash resources and conventional project finance. Our previous arrangement with ESOI ("Envirosafe Services of Ohio, Inc") for the supply of electric arc furnace dust ("EAFD") having been terminated, towards the end of the year we started to engage directly with the steel mills concerning EAFD supply. We have had a positive response from almost all the mills located in the northern part of the USA and Canada and we are in discussions with them for medium and long term supply contracts. These critical discussions should be concluded in the near future.

In January 2010 we completed the purchase of the second hand Waste Oxide Recycling Facility ("WORF") equipment and redesigned the washing facility at Big River to utilise the maximum amount of existing equipment at the site. In addition we have been informed by an independent consultant that the iron product from the rotary hearth furnace, which will be hot briquetted to form a low quality hot briquetted iron ("HBI"), has a value sufficient to question the need for the installation of a melter. In the event that the price of the HBI is such that the installation of the melter is more attractive, it should be possible to extend the project finance facility to cover the cost of the melter at a future time.

The original project had a capital cost of US\$180 million while that of the current plan by using second hand equipment and not having to put in a melter is estimated to be about US\$105 million. A bank experienced in resource project finance has recently offered to provide project finance under an indicative term sheet for the provision of US\$60 million. All such financing requires a limited hedging programme, and it is only since the recovery of the zinc price over the last six months or so that such a hedging requirement has not rendered financing unattractive. In addition, due to the economic crisis, this sort of financing only became available again towards the end of 2009.

The re-engineering of the ORP project to incorporate the recently purchased used equipment is well underway. Due to the reduced capital development cost, the project is expected to have a greater rate of return than the original project planned for development 18 months ago.

ZincOx currently holds about £43 million (US\$67 million) in cash and so this together with the project finance, should be sufficient to develop the project without recourse to shareholders.

## **Other Recycling Projects**

After an exhaustive competitive process, in June 2008 ZincOx was chosen to provide a national facility for the processing of EAFD in Korea. This exercise pitted us against the other leading technologies for EAFD treatment, and was led by a special committee formed by KOSA, Korea's iron and steel industry association. This led to ten year EAFD supply agreements being signed with all the major EAFD operators in Korea, which include two of the largest steel companies in the world.

Test work on representative samples of Korean EAFD are well underway and a feasibility study is scheduled to be completed by the end of 2010.

In Turkey, there is currently no recycling solution with a capacity approaching that required to treat the country's EAFD. ZincOx has a fully permitted site for a rotary hearth furnace and melter and so the Company is in a strong position to develop a new facility. Similarly in Thailand, the ground work has been undertaken and a recycling plant could be established relatively rapidly.

## **Jabali Zinc and Silver Mine**

By the autumn of 2009, largely as a result of the delays experienced at the start of the project, it was clear that Jabali would be commissioned later than originally anticipated. In October 2009, the bond for the Jabali development went into default as a result of the technical consultants to the bondholders advising them that the project was unlikely to be completed by the deadline set in the agreement. This was the only cause for default that could not be remedied by financial restructuring, and in spite of proposing a restructuring that would have compensated the bondholders for the delay, they decided to take back what money they could from the project. There was approximately US\$96 million available in the accounts of the project which represented a return of 80 cents for each dollar invested in the bond. Furthermore given the great reduction in liquidity in this sector over the period, it was not entirely surprising that the bondholders elected to take the available cash.

Following negotiations with the bondholders, ZincOx together with its partner, Ansan Wikfs, were able to recover 100% of the project without encumbrances for an additional cost of US\$10 million. While we would have preferred not to have lost the finance provided through the bond, we have benefited from the funds that were contributed by the bondholders but which were not available to be returned to them. This amounted to a net cash benefit of US\$13.4 million. In addition to this cash benefit, the bondholders forgave the accrued payment in kind interest which, combined with other adjustments, gave a total gain on cancelling the loan of US\$30.6 million in the year. The impairment review of the project done at the year end has given rise to an impairment provision of US\$28 million being charged to the Group income statement.

Due to the continuing strength of the silver price, we are now re-examining the development of the silver recovery circuit in the Jabali process as envisaged in the original feasibility study. Also there remains excellent potential to extend the mine's life as the main deposit is now open at depth and on three sides and there is satellite mineralization nearby.

Jabal Salab requires US\$115 million to complete the project development and it is investigating several financing options, including a new equity partner, debt and off take finance. The Company recently appointed Taylor DeJongh to identify potential partners in the Middle East. Meanwhile, possible investors in other parts of the world are also being contacted.

## **Corporate**

In March 2010, two shareholders attempted to change the direction of the Company by calling for the removal of a number of Directors. These shareholders wanted to use conventional technology to treat EAFD, but this approach offered nothing new and was not considered to be attractive by either the Board or the majority of shareholders, and the resolutions were overwhelmingly defeated. This exercise was very distracting for management and unsettling for our business partners.

ZincOx was set up to recover zinc from unconventional zinc bearing materials which have the potential to create low cost operations and this remains the key raison d'être of the Company. The management team had successfully demonstrated this when running Reunion Mining plc, the company behind the Skorpion integrated mine and refinery, in Namibia.

The Company has always sought innovative metallurgical solutions to bring material others consider to be worthless to account. Technology is, therefore at the heart of our success. It is not, however, our wish to develop new processes but rather to use well established technology commonly used for another metal and

modify it for the recovery of zinc. This was the approach successfully implemented by the management team at Skorpion. By this strategy there is a far lower risk than would be the case for an entirely new process. The rotary hearth furnace at the core of our recycling strategy is an established iron making technology that has been shown also to recover zinc very efficiently. The process needs to be modified to cope with the high concentration of zinc found in EAFD, but the chemistry of the process remains the same and is essentially well proven.

The Company has weathered the economic storms of the past two years and has restructured the plans for its first recycling plant so that it may be developed without recourse to shareholders. The zinc price has strengthened considerably over the past year buoyed up by the continuing growth of China and India as exemplified by the high demand for steel, onto which most zinc is used for the production of galvanised products. With a strong outlook for zinc and our first plant being developed, the foundation blocks are in place for a global rollout of this technology and by this plan your Board is looking forward to fulfilling the ambitious objectives we set ourselves some years ago.

I would like to thank all our employees, for their hard work and my fellow Board members and the Company's shareholders for their support during the very difficult times experienced over the last year and I look forward to these efforts being rewarded in the near future.

Andrew Woollett  
Chairman  
26 April 2010

## REVIEW OF OPERATIONS

### RECYCLING

Steel scrap is recycled in electric arc furnaces by a simple remelting process. Steel production by this method accounts for about one third of global steel production annually. Steel objects are increasingly galvanized to protect them from corrosion. Galvanising involves the coating of steel by a thin layer of zinc metal. As more steel is galvanized so too scrap contains an increasing amount of galvanized material. When the scrap is recycled, the zinc from galvanising, together with other base metals, alkalis and halides, are driven off as fine particles and caught up in the flue gases. These fine particles need to be filtered out before the furnace gases can be returned to the atmosphere. The filters are periodically cleaned and the resulting dusty material is known as electric arc furnace dust or EAFD. In addition to volatile elements there is some carryover of iron oxide particles blown off the scrap during melting.

For every tonne of steel produced by recycling there are typically between 12 and 20 kg of EAFD produced. EAFD generally contains between 18% and 25% zinc, which is about four times richer than the average zinc deposit found in nature. In addition to zinc the EAFD contains 20% to 30% of iron and 1% to 3% of lead.

Generally speaking, at historical zinc prices the recovery of zinc from EAFD has not been possible without a subsidy, i.e. it has no value and is therefore considered to be a waste. Since it also contains traces of toxic elements such as cadmium, arsenic and mercury, it is classified as a hazardous waste. EAFD has been processed for many years using Waelz kiln technology but this does not recover the iron and due to the addition of fluxes (the residue created by the process), it generates almost the same tonnage of residue as the EAFD treated.

ZincOx is using a new approach that will produce:

- a superior zinc concentrate product
- pig iron, the basic intermediate feed for the steel industry
- building aggregate that can be sold to the construction industry
- no waste (except an effluent discharge)

This approach is more energy efficient, has a higher recovery of metals and has a smaller carbon footprint. The ZincOx approach is therefore both commercially and environmentally superior to the Waelz kiln technology.

The ZincOx approach comprises a combination of proven technologies reconfigured and modified to suit the characteristics of EAFD. The principal component is the rotary hearth furnace ("RHF"). The EAFD is blended and mixed with coal and a small quantity of binder before being thoroughly mixed and briquetted. The briquettes are dried and either fed to a stockpile or directly into the RHF. The RHF is a circular tunnel with a diameter of about 30 meters, the floor of the tunnel, the hearth, which is about 5 meters wide, slowly rotates. The briquettes are fed onto the rotating hearth and about 15 minutes later, when they have completed a full circuit, are discharged from the furnace. The temperature in the furnace is maintained at about 1,300°C and the metals in the briquette are reduced. The more volatile metals such as zinc and lead boil off but then re-oxidise forming a dusty precipitate: halide zinc oxide ("HZO") which is caught in filters in the off-gas cleaning system.

The HZO contains about 62% zinc, 4% lead and 8% halides. The halides need to be removed before HZO can be used in a zinc smelter and this can be done by washing. Unlike the zinc concentrate produced by a Waelz kiln, the halides in HZO can be reduced to a significantly lower level. The washed HZO has sufficiently low levels of impurities that it can be fed directly into the leach circuit into a conventional zinc electro-refinery. In addition the washed HZO is extremely high grade and will produce only very small amounts of residue. These two features make washed HZO a very desirable feed that is likely to attract a premium price.

The iron in the briquette is reduced to its metallic form but remains as a solid in the briquette, the other components of which form a vitreous slag. The reduced briquettes are discharged from the RHF directly into a hot briquetting machine that amalgamates several briquettes into larger lumps having a higher density: zinc hot briquetted iron ("ZHBI"). The ZHBI can then be fed into a dedicated electric melter where the temperature will be raised and the ZHBI melted into its heavier pig iron and lighter slag fractions.

Recent investigation has demonstrated that the ZHBI will be a suitable feed for steel mills. However due to its unconventional chemistry, its value will vary according to the operating practices of each mill. It will not, therefore, be possible to determine its sales price until mills have had an opportunity to run trials of several

hundreds of tonnes. For this reason however, a phased development of operations is envisaged so that the economic benefits of installing the melter can be properly judged against the direct sale of ZHBI.

Over the past five years the Company has undertaken an international review of steel recycling and EAFD generation. Steel mills in many countries have been visited and the Company has a strategy to roll out a number of plants throughout the world. The first of these is planned to be in Ohio, with other active projects in Korea, Thailand and Turkey.

### **Ohio Recycling Project**

The ORP will be developed at Delta, Ohio, on a seven hectare site that is fully permitted for the development. This site was specially selected to be far from competitors and well placed for infrastructure that will minimise the cost of EAFD transport. The site is closer to steel mills generating 230,000 tonnes per annum of EAFD than the next nearest recycling plant.

In mid 2008 a complex financing package for the development of the ORP was put in place. In late 2008, however, as a result of the economic crisis, the steel industry in North America was in a trough and production of steel was only 45% of capacity. Consequently, the generation of EAFD was similarly reduced and this created serious concerns as to the availability of EAFD supply for ORP. Furthermore, the dramatic fall in the zinc price at the end of 2008 meant that the receipts from Shaimerden that had been anticipated to be used as part of the ORP financing were critically reduced. The development of ORP was deferred pending an improvement the global economic climate.

#### Reduction in Initial Capital Cost

- 1. Purchase of the WOLF equipment** - During 2009, in order to reduce the capital cost of the project, second hand equipment was sought. ZincOx managed to negotiate the purchase of all the equipment at the little used Waste Oxide Retreatment Facility (WOLF) at Severstal's Rouge steelworks, near Detroit. WOLF had been built in 1999 to treat low zinc bearing iron wastes. The plant is in many ways similar to that required for the ORP and the equipment includes, materials handling and storage, mixers, briquetters, RHF and gas cleaning. The RHF is slightly smaller than that originally designed for ORP and the throughput is expected to be 175,000 tonnes of EAFD per annum. The RHF will be moved to the fully permitted site at Delta, Ohio.
- 2. A second hand hot briquetting machine** suitable for converting the RHF's iron product into hot briquetted iron (ZHBI) has also been identified.
- 3. Washing at BRZ** - The zinc concentrate product will be upgraded by washing at ZincOx's Big River Zinc smelter, where similar washing activity is already being undertaken for third parties. This operation will be expanded and following a re-engineering exercise the cost of this has been greatly reduced by the incorporation of redundant equipment already at the site.
- 4. The potential for the sale of ZHBI** at an attractive price has led to postponing the immediate development of the melter, further reducing the initial development capital.

The steps above have resulted in the initial capital cost of the ORP development being reduced from US\$180 million to US\$105 million.

#### Finance

In order to finance the development, in addition to the Company's equity, discussions with a major resource bank have led to an offer of US\$60 million of project finance. One of the conditions precedent for the finance is EAFD supply agreements (in addition to other standard project finance terms).

Due to the reconfiguration of the project the original ORP bond could not be used and since there was a holding cost to maintaining the bond facility, it was decided to cancel the facility. Most of the costs of setting up the bond were recovered by some bondholders paying a cancellation fee.

No impairment provision of the various recycling projects has been made at the year end. This impairment review of recycling compared the value of the cash generating unit of the Ohio recycling project, being the first recycling project, against the costs of all assets attributable to the recycling activity.

## Next Steps

- ZincOx is in discussions with several mills for the provision of EAFD, and contracts are expected to be signed within the next few months.
- Re-engineering of ORP to take account of the used equipment is being undertaken by Middough, a medium sized engineering contractor based in Cleveland, Ohio.
- Re-location and refurbishment of used equipment will occur on completion of the re-engineering.
- The commencement of operations is being targeted for mid 2011.

## **Korea Recycling Project**

The signing of the Memorandum of Understanding by ZincOx and the Korea Iron and Steel Association (KOSA) in 2008 paved the way for ZincOx to enter into long term EAFD supply agreements with all the major EAF operators in Korea in April 2009 (Hyundai Steel, Dongkuk Steel, Daehan Steel, YK Steel, Hwanyoung Steel, Dongbu Steel, SeAH Besteel, Korea Iron and Steel Company and Posco Specialty Steel).

The supply agreements cover a 10 year period which commences once ZincOx's Korean recycling plant (KRP) has been commissioned and the first collections of EAFD made. The contracts are expected to provide KRP with a minimum of 365,000 tonnes of EAFD per year (based on 2008 production levels) with an average zinc grade of approximately 23%. However EAFD output is expected to rise to more than 400,000 tonnes per year as new projects already under development or being planned come on line.

Following the signing of these agreements the Company's main focus has been on the acquisition of an operating site. Land is scarce and expensive in Korea and even where it can be found progress is difficult without the support of the local authorities and residents. During the year ZincOx reviewed several sites in different parts of Korea but has now agreed on a site at the Cheonbuk Industrial Estate approximately 10km west of the port of Pohang on Korea's east coast. Pohang is one of Korea's major iron and steel centres and approximately 25% of Korea's EAFD is generated in steel mills based there. Cheonbuk enjoys excellent road connections to the other major steel centres both on Korea's west coast (Incheon, Dangjin and Gunsan) and also around Busan to the south. The steel mills based in Pohang represent an obvious market place for the pig iron KRP will produce and Korea's major zinc smelting facility an Onsan, less than one hour's drive away, represents a potential customer for KRP's zinc oxide concentrate.

ZincOx's decision to locate at Cheonbuk was influenced very significantly by the strong support the Company has received both from the Mayor of Gyeongju City (within whose administrative area Cheonbuk sits) and from the Governor of Gyeongsangbuk-Do Province. ZincOx has now formally applied to this Province for a range of investment incentives covering its chosen site which should enable the Company to secure a formal long term lease on the site.

In parallel with work to secure a suitable site, the Company has also moved forward with other key activities. These included the collection of several tonnes of EAFD from the contracted mills during the year. This was shipped to Belgium and processed through the Company's pilot plant, together with samples of coal from the different Australian mines which ZincOx has identified as being potential suppliers to KRP. These tests confirmed high levels of zinc recovery and iron metallization.

The completion of these confirmatory tests and the prospect of securing an operating site places the Company in a strong position to move forward with engineering during 2010.

## **Turkey Recycling Project**

Turkey is a major steel producer, most of which comes from the recycling of scrap in electric arc furnaces. These furnaces have the capacity to generate over 300,000 tonnes per annum EAFD and plants under construction or planned will increase this to over 400,000 tonnes per annum.

ZincOx owns a site in the Aliaga Heavy Industrial Area located about 60 km north of Izmir on Turkey's western seaboard. The site is fully permitted for an RHF and melter with the capacity to treat 200,000 tonnes per annum of EAFD.

## **Thailand Recycling Project**

Thailand produces about 100,000 tonnes per annum of EAFD and steel mills in other countries in South East Asia and Australia together produce over 150,000 tonnes per annum. ZincOx intends to establish a regional EAFD treatment facility in Thailand that could treat EAFD generated in Thailand and the surrounding countries

The Company had an option to purchase a site on which it had obtained environmental permitting for a rotary hearth furnace, but following the economic crisis and fall in land prices, the option was allowed to lapse. ZincOx has identified two further sites that would be suitable for an operation and the documentation required for an environmental permit application has been prepared.

## **REFINING**

### **Similajau (formerly Bintulu)**

The exceptional quality of HZO (see Introduction to Recycling on page 5) enables its treatment in a greatly simplified electro-refining circuit. This simple circuit will have significant implications for the capital and operating costs of a dedicated plant. ZincOx has carried out a scoping study based on a simplified plant designed to treat HZO exclusively.

Since the greatest single cost of a zinc electro-refinery is power for electrowinning the metal, ZincOx is examining the possibility of developing a dedicated plant in the Similajau industrial zone in Sarawak, Malaysia. The Similajau industrial zone is part of a large industrial complex to be supplied with electrical power generated from a number of nearby hydroelectric facilities. In October, the Malaysian Department of the Environment confirmed that the brine effluent to be discharged as a result of HZO upgrading was within the prescribed limits. A washing plant at Similajau, could therefore act as a regional facility.

If ZincOx is successful in entering into attractive long term power supply agreements, a full feasibility study for the development of a new 150,000 – 250,000 tonnes per annum zinc electro-refinery will be considered.

### **Big River Zinc**

ZincOx owns the Big River Zinc electro-refinery near St Louis, USA. This 100,000 tonnes per annum zinc facility is currently on care and maintenance but acts as a base for ZincOx operations in North America and carries out upgrading of zinc oxide concentrates for third parties as well as providing sulphuric acid storage and distribution.

In due course if sufficient HZO can be generated by ZincOx operations in North America, zinc production could be restarted.

## **ZINC MINING**

### **Jabali Zinc and Silver Mine – Yemen**

The exploitation and development rights to the Jabali zinc deposit are owned by Jabal Salab Company (Yemen) Limited (“Jabal Salab”), in which ZincOx holds a 52% interest. The balance of 48% is held by Ansan Wikfs Investments Limited.

The Jabali deposit contains a mineable reserve of 8.7 million tonnes of ore at an average grade of 9.2% zinc and 68 grams per tonne of silver. The deposit will be mined at the rate of 800,000 tonnes per annum by open pit with a strip ratio of 2:1. Ore will be crushed and calcined prior to milling and leaching using ammonia based solutions. Following purification, zinc carbonate will be precipitated and calcined for the production of 70,000 tonnes per annum of very high quality zinc oxide (>79% zinc) containing approximately 56,000 tonnes of zinc. The zinc oxide will be bagged and shipped in part to customers in the paint and ceramics industries. The balance will be shipped to Jabali’s Rubber Grade Plant (“RGP”) under construction in Belgium where it will be further milled to produce a high quality product required by the rubber industry. It is planned to extend the plant to treat the silver bearing zinc plant residue once the zinc oxide operation has reached operational capacity. This extension will use conventional processing technology to recover silver in doré bars and is expected to produce 1.4 million ounces of silver per annum.

The Government of Yemen remains extremely supportive of the Jabali project. It is the first large scale mining project to be developed in Yemen and the Government recognises that mining is a way of diversifying away

from its dependence on the oil sector. Jabal Salab has a 20-year Exploitation Agreement with the Ministry of Oil and Minerals that sets out all the terms and conditions for development of the deposit. This agreement has been approved by the Yemen parliament and ratified as law by the President.

The project costs, including the RGP, are US\$244 million. The project was originally financed by US\$96 million of shareholder equity together with US\$120 million bond (the "Jabali Bond"). The Jabali Bond defaulted in October 2009 and rather than try to negotiate a settlement to restore the position of the bondholders, they elected simply to recover approximately 80 cents from each US\$1 invested available from the cash balance that had not been spent, which co-incidentally amounted to US\$96 million. As a result, after ZincOx and its joint venture partner, Ansan Wikfs, successfully negotiated to purchase back unencumbered ownership of the project for US\$10 million, the project effectively benefitted by approximately US\$13.4 million in cash and with the cancellation of the payment in kind interest, combined with other adjustments, the accounting gain on cancellation of the bond, under IFRS, was US\$30.6 million. The requirement under IFRS to do an impairment review this year has resulted in an impairment provision of US\$28 million being made in the Group income statement.

ZincOx and Ansan Wikfs are currently in the process of arranging a re-financing of Jabali. US\$120 million had already been spent on the project at the time of default and a further US\$12 million has been spent since that time to maintain the project pending refinancing. The Board intends to raise the balance of the finance from new investors and/or lenders. Taylor DeJongh, a specialist investment banking firm experienced in financing projects in the Middle East, has been appointed to advise on the refinancing. A road show in the Middle East is currently under way and in parallel, ZincOx and Ansan are continuing to pursue alternative sources of finance from other parts of the world.

A recent independent review of the development status of the Jabali project concluded that practical completion can be expected within 19 months of the refinancing.

#### **Shaimerden Zinc Mine – Kazakhstan**

ZincOx sold its interest in the Shaimerden zinc oxide deposit in 2003 but retained an interest through ongoing deferred payments based on a formula linked to the zinc price. The deferred payments are based on the first 200,000 tonnes of zinc contained in ore that are mined from the deposit. ZincOx is paid at a rate of US\$0.2375 per tonne for every dollar that the average LME zinc price for the year is above US\$800 per tonne. The payments are made on a deemed minimum and maximum amounts of 40,000 and 60,000 tonnes of contained zinc in ore, respectively.

For 2009, ZincOx was entitled to a payment based on the maximum of 60,000 tonnes of contained zinc and in January 2010 it received US\$12.2 million. To date ZincOx has received deferred payments in respect of 190,174 tonnes leaving a final payment due for the balance of 9,826 tonnes, to be paid in January 2011.

## FINANCIAL REVIEW

### Results

The Group loss after tax attributable to shareholders of the parent company was £2.6m compared to a profit of £4.6m last year. The Group had an underlying operating loss of £11.3m (2008: loss of £1.7m) in the year. The administrative expenses deducted in arriving at the underlying operating loss in the year amount to £11.5m (2008: £1.6m) and include an unrealised foreign exchange loss of £5.9m (2008: gain of £7.9m) as a result of the significant US dollar balances being held as cash at the year end and due to the significant movement in the US dollar exchange rate through 2009. The non foreign exchange administrative expenses have reduced to £5.5m in the year from £9.6m in 2008.

The key items within other gains and losses include deferred consideration in respect of Shaimerden of £9.7m (2008: £13.6m) and a gain arising on the cancellation of the Jabali and Ohio bonds. The Shaimerden gain has been grossed up for withholding tax deducted at source. The cancellation of the debt by the lenders to the Yemen project in December 2009 was an event which has led to a net US\$30.6m (£19.2m) exceptional gain in the income statement. A net cash gain of US\$13.4m arose on the debt cancellation because although the lenders received back US\$96.6m of the original US\$120m cash they had put into the project, ZincOx and Ansan paid US\$10m to get the project back in an unencumbered state to facilitate future financing. The balance of the gain arises due to the bondholder forgiving rolled up accrued interest on the bond which had been accruing since February 2008 (US\$18.7m), which when combined with other accounting adjustments arising on cancellation gives a total gain of US\$30.6m.

The Board conducted an impairment review this year under IFRS where it tests asset carrying values for impairment by estimating the value in use of the cash-generating units to which it has been allocated. The value in use is estimated by discounting future cash flows. This process gives rise to estimates being required in respect of the cash flows themselves and the discount factors applied. The result of this assessment is that the Board has decided to write certain of the development assets down by £0.7m (2008: £5m) to reflect the realisable value of those assets at the end of the year. The Board has also reviewed the carrying value of the Jabali investment using the same methodology and, as a result, an impairment provision of £17.6m (US\$28m) has been made against the underlying assets of Jabal Salab. The Board has performed an impairment test on the carrying values of all the recycling assets compared to the discounted future cashflows of the Ohio RHF as the cash generating unit and no impairment was required to the carrying values of these ongoing recycling assets.

### Liquidity and funding

The cash funds of the Group at 31 December 2009 were £46.9m compared with £64.5m at the end of 2008. These cash funds were held in a range of currencies at the year end but principally US dollars (US\$65.8m) and sterling currencies (£5.5m).

The Directors have reviewed the budgets for 2010 and the projections for 2011 developed during the planning cycle. The Directors have considered a range of different scenarios, with their associated risks and uncertainties, and the impact of these on the Group's cash balances. Further, the Directors have assessed the future funding requirements of the Group and compared them with the levels of expected project finance available for the Ohio project and, based on this work, the Directors are satisfied that the Group has adequate resources for at least the next twelve months from the date of signing these financial statements.

The remaining available cash balances leave the Group in a strong position in these difficult times.

The "restricted cash" in the consolidated balance sheet relates to the final amount of cash payable to the Jabali lenders. This money was taken back by the lenders in January 2010.

### Principal risks and uncertainties

Throughout its operations, ZincOx faces various risks, both internal and external, which could have a material impact on the Group's long-term performance. The principal risks facing the Group in the current economic climate are those relating to the challenges in obtaining project finance for the Ohio project and the refinancing of the Yemen project. Obtaining dust supply agreements and refurbishing the second hand equipment also need careful management for the Ohio project. The volatility of the zinc price affects the availability of finance as well as the value of projects within the Group. The geopolitical risks of the Yemen project are expected to be reflected in the future availability, timing and cost of any refinancing package. Other risks include the risks of competing technologies and the reliance on the expertise of the key Group personnel. The Group has exposure to various other risks connected with the uncertainties of the political, fiscal and legal systems, including taxation and currency fluctuations in the territories in which the Group operates.

Clearly, these are not the only risks that the Group will face. Some risks are not yet known and some that are not currently deemed material could later turn out to be material. All of these risks could materially affect the Group, its business, results of future operations or financial condition.

### **FORWARD LOOKING STATEMENTS**

The Chairman's Statement, the Review of Operations and the Financial Review all contain discussion of future operations and financial performance by use of various forward-looking words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and terms of similar substance. These forward-looking statements are based on management's current expectations and beliefs about future events but as with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances which could cause the Group's actual activities and results to differ materially from those contained in the forward-looking statements.

**ZINCOX RESOURCES PLC**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Revenue		1,183	262
Cost of sales		(1,007)	(296)
<b>Gross profit / (loss)</b>		<b>176</b>	<b>(34)</b>
Administrative expenses		(5,524)	(9,565)
Foreign exchange (loss) / gain		(5,942)	7,918
<b>Total Administrative Expenses</b>		<b>(11,466)</b>	<b>(1,647)</b>
<b>Underlying Operating Loss</b>		<b>(11,290)</b>	<b>(1,681)</b>
Other gains and losses	3	29,598	12,246
Impairment provisions	4	(18,280)	(5,040)
<b>Operating Profit</b>		<b>28</b>	<b>5,525</b>
Finance income		259	1,517
Finance costs		(250)	(642)
<b>Profit before tax</b>		<b>37</b>	<b>6,400</b>
Taxation		(1,999)	(2,782)
<b>Net (Loss) / Profit</b>		<b>(1,962)</b>	<b>3,618</b>
Attributable to:			
Equity holders of the parent		(2,633)	4,659
Minority interest		671	(1,041)
		<b>(1,962)</b>	<b>3,618</b>
Basic (loss) / earnings per ordinary share	2	(3.39p)	7.05p
Diluted (loss) / earnings per ordinary share	2	(3.39p)	6.98p

**ZINCOX RESOURCES PLC**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	Year ended 31 December 2009 £'000	Year Ended 31 December 2008 £'000
<b>(Loss) / Profit for the period</b>	(1,962)	3,618
<b>Other comprehensive (expense) / income</b>		
Exchange differences on translating foreign operations	(6,422)	14,071
<b>Total comprehensive (expense) / income for the period</b>	<b>(8,384)</b>	<b>17,689</b>
Attributable to:		
Equity holders of the parent	<b>(7,066)</b>	<b>18,730</b>
Minority interest	<b>(1,318)</b>	<b>(1,041)</b>
	<b>(8,384)</b>	<b>17,689</b>

**ZINCOX RESOURCES PLC**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2009**

	As at 31 December 2009 £'000	As at 31 December 2008 £'000	As at 31 December 2007 £'000
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Intangible assets	20,708	19,458	17,706
Property, plant & equipment	97,835	62,559	22,031
Restricted cash	-	10,350	-
Trade and other receivables	227	-	-
	118,770	92,367	39,737
<b>Current Assets</b>			
Inventories	420	671	973
Trade and other receivables			
Restricted cash	10,732	14,043	18,449
Cash and cash equivalents	169	81,629	-
	46,929	64,458	12,646
	58,250	160,801	32,068
<b>TOTAL ASSETS</b>	<b>177,020</b>	<b>253,168</b>	<b>71,805</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Bank loans and overdraft	-	-	(534)
Trade and other payables	(15,075)	(9,687)	(5,034)
	(15,075)	(9,687)	(5,568)
<b>Non-Current Liabilities</b>			
Other long term liabilities	(632)	(86,951)	(581)
	(632)	(86,951)	(581)
<b>TOTAL LIABILITIES</b>	<b>(15,707)</b>	<b>(96,638)</b>	<b>(6,149)</b>
<b>NET ASSETS</b>	<b>161,313</b>	<b>156,530</b>	<b>65,656</b>
<b>EQUITY</b>			
Share capital	19,465	19,394	12,244
Share premium	85,336	85,336	37,422
Retained earnings	15,083	17,053	11,364
Foreign currency reserve	9,476	13,909	(162)
<b>Equity attributable to equity holders of the parent</b>	<b>129,360</b>	<b>135,692</b>	<b>60,868</b>
Minority interest	31,953	20,838	4,788
<b>TOTAL EQUITY</b>	<b>161,313</b>	<b>156,530</b>	<b>65,656</b>

**ZINCOX RESOURCES PLC**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	31 December 2009 £'000	31 December 2008 £'000
Profit before taxation	37	6,400
Adjustments for:		
Depreciation and amortisation	1,185	1,318
Foreign exchange gain	2,250	4,102
Interest received	(259)	(1,517)
Interest expense	250	642
Impairment of intangible assets	701	5,040
Impairment of tangible assets	17,579	-
Tangible assets written off	2	125
Share based payments	663	1,030
Increase in trade and other payables	5,458	5,002
Increase in trade and other receivables	(718)	(1,045)
Decrease in inventories	251	302
Foreign tax at source	(1,999)	(2,782)
Other gains and losses	(29,598)	(9,464)
<b>Cash (utilised) / generated from operations</b>	<b>(4,198)</b>	<b>9,153</b>
Interest paid	(250)	(642)
<b>Net cash flow from operating activities</b>	<b>(4,448)</b>	<b>8,511</b>
<b>Investing activities</b>		
Net proceeds from disposal of assets	10,846	16,010
Purchase of intangible assets	(3,096)	(3,786)
Purchases of property, plant and equipment	(59,567)	(35,009)
Interest received	259	1,517
<b>Net cash used in investing activities</b>	<b>(51,558)</b>	<b>(21,268)</b>
<b>Financing activities</b>		
Borrowings	-	95,861
Restriction of borrowings	-	(95,861)
Release of restricted cash	91,810	3,882
Repayment of borrowings	(66,972)	-
Net proceeds from cancellation of bond	1,135	-
Minority interest investment	12,433	6,157
Net proceeds from issue of ordinary shares	71	55,064
<b>Net cash received from financing activities</b>	<b>38,477</b>	<b>65,103</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(17,529)</b>	<b>52,346</b>
Cash and cash equivalents at start of year	64,458	12,112
<b>Cash and cash equivalents at end of year</b>	<b>46,929</b>	<b>64,458</b>

**ZINCOX RESOURCES PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT**  
**31 DECEMBER 2009**

	Share capital	Share premium	Translation reserve	Retained earnings	Total attributable to equity holders of parent	Minority interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2007</b>	<b>12,105</b>	<b>37,245</b>	<b>(107)</b>	<b>(1,001)</b>	<b>48,242</b>	<b>(47)</b>	<b>48,195</b>
Share based payments	-	-	-	979	979	-	979
Issue of share capital	139	177	-	-	316	-	316
Capital increase from minority interest	-	-	-	-	-	4,835	4,835
<b>Transactions with owners</b>	<b>139</b>	<b>177</b>	<b>-</b>	<b>979</b>	<b>1,295</b>	<b>4,835</b>	<b>6,130</b>
Profit for the period	-	-	-	11,386	11,386	-	11,386
<b>Other comprehensive income / (expense)</b>							
Exchange differences on translating foreign operations	-	-	(55)	-	(55)	-	(55)
<b>Total comprehensive income / (expense) for the period</b>	<b>-</b>	<b>-</b>	<b>(55)</b>	<b>11,386</b>	<b>11,331</b>	<b>-</b>	<b>11,331</b>
<b>Balance at 31 December 2007</b>	<b>12,244</b>	<b>37,422</b>	<b>(162)</b>	<b>11,364</b>	<b>60,868</b>	<b>4,788</b>	<b>65,656</b>
Share based payments	-	-	-	1,030	1,030	-	1,030
Issue of share capital	7,150	47,914	-	-	55,064	-	55,064
Capital increase from minority interest	-	-	-	-	-	17,091	17,091
<b>Transactions with owners</b>	<b>7,150</b>	<b>47,914</b>	<b>-</b>	<b>1,030</b>	<b>56,094</b>	<b>17,091</b>	<b>73,185</b>
Profit for the period	-	-	-	4,659	4,659	(1,041)	3,618
<b>Other comprehensive income / (expense)</b>							
Exchange differences on translating foreign operations	-	-	14,071	-	14,071	-	14,071
<b>Total comprehensive income / (expense) for the period</b>	<b>-</b>	<b>-</b>	<b>14,071</b>	<b>4,659</b>	<b>18,730</b>	<b>(1,041)</b>	<b>17,689</b>
<b>Balance at 31 December 2008</b>	<b>19,394</b>	<b>85,336</b>	<b>13,909</b>	<b>17,053</b>	<b>135,692</b>	<b>20,838</b>	<b>156,530</b>
Share based payments	-	-	-	663	663	-	663
Issue of share capital	71	-	-	-	71	-	71
Capital increase from minority interest	-	-	-	-	-	12,433	12,433
<b>Transactions with owners</b>	<b>71</b>	<b>-</b>	<b>-</b>	<b>663</b>	<b>734</b>	<b>12,433</b>	<b>13,167</b>
Loss for the period	-	-	-	(2,633)	(2,633)	671	(1,962)
<b>Other comprehensive income / (expense)</b>							
Exchange differences on translating foreign operations	-	-	(4,433)	-	(4,433)	(1,989)	(6,422)
<b>Total comprehensive income / (expense) for the period</b>	<b>-</b>	<b>-</b>	<b>(4,433)</b>	<b>(2,633)</b>	<b>(7,066)</b>	<b>(1,318)</b>	<b>(8,384)</b>
<b>Balance at 31 December 2009</b>	<b>19,465</b>	<b>85,336</b>	<b>9,476</b>	<b>15,083</b>	<b>129,360</b>	<b>31,953</b>	<b>161,313</b>

The minority interest represents amounts due to Ansan Wikfs from financing provided to Jabal Salab Company (Yemen) Limited of which they own a 48% share.

## Notes:

### 1. Preparation of non-statutory accounts

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 435 of the Companies Act 2006.

The consolidated balance sheet as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and associated notes for the year then ended have been extracted from the Group's 2009 statutory financial statements upon which the auditors' opinion is unqualified, and does not include any statement under Section 498 (2) or (3) of the Companies Act 2006. The auditors opinion is unqualified, but includes the following emphasis of matter:

#### **Emphasis of matter - carrying value of assets relating to Jabali Zinc Mining project**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in the financial statements concerning the Group's ability to raise sufficient funds to continue to develop the Jabali Zinc Mining project in the foreseeable future. The project's previous lenders withdrew their support with effect from 9 December 2009 and, since that time the Directors have considered the various options for the project and have commenced discussions with a number of parties to secure the appropriate funding. The directors remain confident that they will secure the appropriate funding to enable the project to proceed and of the commercial viability of the project. However, as of this date, such funding has not been secured and therefore there is a possibility that the project cannot proceed and that ultimately the project and its related assets may have to be sold to a third party. These conditions, along with the other matters explained in the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the carrying value of the assets relating to the Jabali Mining project. The financial statements do not include any adjustments that would result if the Group was unable to secure the appropriate financing for the project to continue.

### 2. Earnings per Share

The calculation of the loss per share is based on the loss attributable to ordinary shareholders of £2,633,000 (2008: profit of £4,659,000) divided by the weighted average number of shares in issue during the year of 77,700,741 (2008: 66,121,684).

There is no dilutive effect of the share options in issue during the year ended 31 December 2009. The calculation of the diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to ordinary shareholders of £4,659,000 divided by the weighted average number of shares in issue as varied by the dilutive effect of the share options in issue during the year totalling 66,743,304.

### 3. Other Gains and Losses

	2009	2008
	£'000	£'000
Deferred consideration on disposal of subsidiary	9,702	13,552
Fair value movement in derivative liability	-	(1,295)
Gain on cancellation of Jabali loan	19,250	-
Ohio Bond redemption	561	-
Gain on intangible previously impaired	85	-
Loss on disposal of investment	-	(15)
Profit on disposal of property, plant and equipment	-	4
	<b>29,598</b>	<b>12,246</b>

The deferred consideration on disposal of subsidiary relates to the deferred consideration due to the Group's subsidiary, Zinc Corporation of Kazakhstan, following the sale of its subsidiary, Shaimerden Joint Stock Company on 12 December 2003. The deferred consideration is based on the production during the year representing 60,000 tonnes (2008: 60,000 tonnes) and has been grossed up for withholding tax deducted at source.

The derivative liability movement was in respect of the Zinc Index Price Participation Obligation under the terms of the loan provided to Jabal Salab.

The accounting gain of US\$30.6m (£19.25m) on the cancellation of the Jabali loan comprises the sum of a US\$13.4m (£8.4m) cash benefit on cancellation and an amount of US\$18.7m (£11.7m) of accrued "payment in kind" interest waived on the cancellation, and a US\$1.8m (£1.1m) gain from unwinding the ZIPPO derivative liability, offset by a US\$3.3m (£2.0m) loss on writing off the unamortised loan fees.

As announced on 3 July 2009, the Company terminated the final part of the Ohio Bond Facility giving rise to a total gain in the year of £561,000.

#### **4. Impairment Provisions**

As a result of impairment reviews performed on certain projects at the year end, an impairment provision has been made in relation to the project in Yemen of US\$28m (£17.6m) and deferred development costs of US\$0.7m (£0.4m) have been written down. Any impairment provisions in the year are included in the Group income statement in arriving at operating profit.

#### **5. Post Balance Sheet Events**

In January 2010, the Group received the Shaimerden payment of US\$12.2m (£7.6m) shown as other debtors.

On 15 January 2010, the Group completed the acquisition of the Waste Oxide Recycling Facility (WORF) processing equipment, from a subsidiary of Severstal North America, Inc. for a consideration of US\$4m.

#### **6. Preliminary Statement**

Copies of the Annual Report will be sent to shareholders shortly and may be viewed on the Company's website [www.zincox.com](http://www.zincox.com). The Annual Report will be available from the Company at Knightway House, Park Street, Bagshot, Surrey GU19 5AQ and from Numis Securities Limited.