

ZincOx Resources plc



Annual Report 2003

Contents

2	Chairman's Statement
4	Review of Operations
4	Primary Deposits
	Jabali Project – Yemen
	Shaimerden Project – Kazakhstan
6	Recycling
	Potential Feed Material
	Electric Arc Furnace Dust
	Slags
	Technology
	Leaching
	Polykiln
9	Directors and Advisers
10	Directors' Report
14	Independent Auditors' Report
16	Consolidated Profit and Loss Account
17	Other Primary Statements
18	Consolidated Balance Sheet
19	Company Balance Sheet
20	Consolidated Cash Flow Statement
21	Notes to the Financial Statements
32	Notice of Annual General Meeting

ZincOx Resources plc is a **world leader** in the processing of zinc oxide materials. It is aiming to become one of the world's **lowest cost** producers of zinc through a **global portfolio** of projects.

Highlights

- Sale of the Shaimerden deposit at considerable profit.
- Acceleration of recycling strategy.
- Earnings per share of 8.24p (Diluted: 8.05p).
- Jabali – Yemen feasibility study to be completed early 2005.

“The sale of Shaimerden has secured the short and medium term future of the company without recourse to the shareholders.”

Noël J J Masson

Chairman

The highlight for 2003 was the sale of the Shaimerden zinc oxide deposit in Kazakhstan for a substantial profit. The transaction provided a significant initial receipt with further upside through deferred consideration that relates to future production and the price of zinc. As a result, the company made an after tax profit for the year of £1,818,787 (2002: loss £1,082,350). Earnings were 8p per share (2002: loss 6p per share).

Our plans to build up a major business recovering zinc from secondary and waste materials have been advanced significantly during the year, by the ongoing development of new technology and the formulation of regionally focused strategies. We expect to be able to announce specific recycling projects through the course of 2004.

Over the past few years the zinc price has been at very depressed levels, about 30%, or US\$400 per tonne, lower than the long-term average price. While we expect zinc prices over the long term to remain close to the historical average, the purchaser of the Shaimerden deposit, JSC Kazzinc, was concerned that low prices may continue for sometime. We therefore formulated a structure for the sale that allows us to benefit from the actual zinc price over the medium term rather than the current depressed levels.

By structuring the transaction in this way we received US\$7.5 million in March 2004 and, provided the zinc price returns to its long term average, we can expect to receive a further US\$12-15 million spread over four years commencing in 2007. This is effectively the equivalent of a cash flow from a small mining operation. We have, therefore, secured the medium term future of the company and this has been achieved without dilution of shareholders' interests.

We should remember, too, that the Shaimerden deposit was purchased only in October 2002 for a consideration of US\$200,000 mainly paid in ZincOx shares. Over the following 18 months we spent about US\$1.5 million on the project. To have sold it as we have, represents an excellent return on our investment.

At our Jabali project, in Yemen, our partners have granted us an extension to the deadline for the completion of the feasibility study that defines our 60% earn-in to the project. The final part of the study has now commenced and the various contractors involved in the multi-disciplinary team

that is undertaking the work are being appointed. We are aiming to have the study completed in early 2005.

The recovery of zinc by leaching, i.e. dissolution in dilute acid, followed by solvent extraction and electrowinning (SX-EW) formed the primary technology of the company. This technology was first applied to a primary zinc oxide deposit at Skorpion, in Namibia, when ZincOx's executive team managed Reunion Mining, the operator of the project. The Skorpion mine and refinery produced its first zinc in May 2003 and is steadily increasing production. Anglo American plc, owner of the deposit, is delighted with the technology and has publicly endorsed the process. The technology that we developed for Skorpion, the cornerstone of ZincOx's strategy, can now be said to have come of age, and this will facilitate our efforts to raise finance for projects using this technology.

Our leaching SX-EW technology is suitable for primary oxide deposits that have both low grade and high impurity levels and which cannot therefore be treated economically using conventional processes. A number of industrial processes produce waste products that contain significant amounts of zinc albeit with a low grade and with high impurity levels when compared to zinc concentrates. Such waste is similar in many respects to the primary oxides we have been targeting over the past six years. It is these waste materials that are forming the focus of our recycling strategy, and it is therefore a natural extension of the strategy we have been pursuing to date.

Our recycling strategy is concentrating on two types of waste, slags from lead smelters and dust produced from the recycling of steel scrap in electric arc furnaces, Electric Arc Furnace Dust (EAFD). The former contains 10%-14% zinc while the latter contains 15%-25% zinc, this compares to a grade of 7% zinc for a typical zinc sulphide deposit. Given that the waste is free or subsidised, and that zinc concentrate production typically accounts for over 50% of the cost of producing zinc in a conventional smelter, if the right technology can be found, the rewards could be substantial.

It is not possible to recover directly zinc contained in the lead slag by the leaching SX-EW process. The zinc can however be concentrated using the well established pyrometallurgical fuming process. The leaching SX-EW process can then be used to produce zinc from this concentrate. The pyrometallurgical fuming process can be undertaken with a variety of equipment and we have examined several options.



Above: Andrew Woollett (Managing Director) and Noël Masson (Chairman)

While the process works well, the high cost of energy and large capital cost of conventional equipment generally makes the process uneconomic. However, last year we became aware of a new type of equipment (Polykiln) that has the potential to effect the same process, but very much more rapidly and with far greater efficiency. The former leads to smaller, and therefore cheaper, equipment and the latter improves energy consumption. The reduced costs will, we believe, allow the economic recovery of zinc from higher grade, or already molten, slags.

Discussions regarding the acquisition of slag dumps or for joint ventures with existing smelters is underway but further progress is awaiting the confirmation of cost estimates in a pilot plant we have recently finished refurbishing in Kazakhstan. Test runs are expected to start shortly.

The Polykiln process could also provide the best technology for the Tsumeb slag project in Namibia, but since our option agreement to purchase the slags expired before the pilot plant was operational and in view of the current low price of germanium, we decided to let the option lapse. Our relations with the owners of the Tsumeb slags remain excellent and we are hopeful that a new option may be agreed after we have tested the material in the Polykiln pilot plant.

Our leaching SX-EW technology can recover zinc from EAFD and we have confirmed this in a number of tests on material gathered from around the world over the past year. At the same time we have been developing a different leaching approach (MT Leach) that uses hydrochloric, rather than sulphuric, acid. The MT Leach has the advantage that it can recover lead as well as zinc, but the capital cost is greater than for the leaching SX-EW process. Our work on the MT Leach culminated at the end of the year in the application for a patent to cover the process. We now have two important leaching processes and we are formulating strategies specifically designed for different regions of the world.

Our regional strategy is most advanced in the Eastern Mediterranean where we are considering a project to build a new zinc plant to treat EAFD, in Turkey. Turkey is the 15th largest producer of steel in the world, all of which comes from the recycling of largely imported steel scrap. These recycling activities produce significant quantities of EAFD. We are receiving considerable support from both government and the steel producers for our plans and we expect to be able to announce a specific project proposal before the end of the year.

In addition to the treatment of slag, the Polykiln also has the potential to recover a high-grade lead and zinc concentrate from EAFD. Such a concentrate would be an ideal feed for the MT Leach so that both lead and zinc metal could be recovered. We hope to test EAFD in the Polykiln during 2004.

While we see recycling as the greatest area of growth for the company, we continue to press ahead with our search for and investigations of primary zinc oxide deposits. However as a result of the Shaimerden sale, we have reviewed our target size and decided that our time is best spent on focusing on larger potential operations rather than smaller projects. The smaller targets have the attraction of potentially providing a modest near term cash flow but the attractiveness of this has now been reduced since we expect further revenue from Shaimerden over the coming years. As a consequence of this together with the disappointing exploration results, we have decided to withdraw from the Las Damas project in Mexico.

During 2004 we have seen a significant rise in the zinc price in US dollar terms, however the rise is very much more modest when the price is expressed in almost any other currency. The short term outlook for zinc remains uncertain but we are still optimistic regarding the medium and long term price of the metal as several zinc plants have closed in the past few years. On the supply side there seems to be a genuine shortage of new projects that can keep pace with exhaustion of older mines, and demand led by China's meteoric economic growth.

While Shaimerden has dominated our news in 2003, I am confident that the hard work on recycling technology undertaken over the past few years is finally coming to fruition and that we will be in a position to share these strategies with shareholders over the coming months. I should like to thank all our staff and my colleagues on the Board for their hard work over the past year and I am confident that this will be rewarded by the development of new projects over the coming year. I would specifically like to thank Bryan Morris for his service to the company who retired during the year at the same time as he retired from Teck Cominco Ltd.

N J J Masson
Chairman
21st June 2004

Review of Operations – Primary Deposits

1. weather stations
2. drilling on site
3. drilling on site
4. water survey
5. Wadi Khanaq



Jabali

Project, Yemen



Jabali, Yemen

The Jabali deposit contains zinc, lead and silver. It is located some 100km north east of Sana'a, the capital of Yemen, in an unpopulated region of desert mountain terrain. The deposit lies in a Mineral Exploration Licence (MEL) covering 703km².

The MEL is owned jointly by ZincOx, Anglo American plc and Ansan Wikfs (Hadramaut) Ltd. ZincOx is the manager of the project and is currently increasing its interest from 20% to 60% by completing, at its sole cost, a feasibility study for the development of a mining operation.

During the course of 2003, SRK Consulting completed, on behalf of the company, the geological modelling and resource estimations for the deposit to a level that should satisfy potential providers of finance for development of the deposit. SRK have derived a Measured and Indicated Resource estimate, as defined by the JORC code, of 10.8 million tonnes with mean grades of 8.7% zinc, 1.2% lead and 68g/t silver. This represents 84% of the total resource, which now amounts to 12.6 million tonnes at 8.9% zinc, 1.2% lead and 68g/t silver. Further work by SRK concluded, as part of a geo-technical report, that overall rock conditions were favourable for the development of an open pit. A preliminary mine design has been developed and a mining schedule for a production rate of 800,000 tonnes per annum of ore, at a waste to ore ratio over the life of the mine of 2:1, has been produced. Work will now focus on optimising the open pit design and costing of the mining fleet.

It is planned to crush and mill the mined ore, followed by flotation. A high grade lead and silver flotation concentrate will be produced for export to lead smelters. However, due to the oxide nature of the ore, the zinc concentrate produced by flotation is relatively low grade and will require further upgrading by fuming in a waelz kiln before it can be exported to zinc smelters.

MDM, a well known South African firm of mineral processing engineers, has been appointed to carry out the feasibility

study, on behalf of the company. SRK will complete the geology, resource calculations, geotechnical and mining sections of the study under the umbrella of MDM. This will allow MDM to focus on the process plant design and engineering, the capital and operating cost estimates, and the infrastructure requirements of the project. Waste rock and tailings disposal and environmental consultants will be appointed shortly. The feasibility study is scheduled for completion at the beginning of 2005.

Piloting of the flotation process has recently been carried out by Lakefield Research Laboratories in Toronto, and results are being analysed. It is then planned to pilot the fuming process at Fullers in Pennsylvania, United States before finalising the design of the process treatment.

In parallel to the feasibility study, negotiations with the Yemen Government with respect to a Mining Agreement have commenced.

Top Location of Shaimerden in Kazakhstan.

Bottom Drilling at Shaimerden for the collection of a 120 tonne sample of ore for metallurgical test work.



Shaimerden

Project, **Kazakhstan**

Shaimerden, Kazakhstan

The Shaimerden zinc oxide deposit is situated in northern Kazakhstan, some 300km south west of the city of Kostanai. ZincOx sold its 95% interest in the deposit in December 2003 to JSC Kazzinc, Kazakhstan's largest producer of zinc. The net consideration for the sale was US\$7.5 million in cash and deferred consideration details of which are set out below.

The deferred consideration is payable on the first 200,000 tonnes of zinc contained in ore mined from the deposit, at a rate equivalent to \$0.2375 per tonne for every dollar that the LME zinc price is above \$800 per tonne. Provided the zinc price is above \$800 per tonne and certain other conditions are met (see below), the deferred consideration is receivable regardless of whether Kazzinc commences mining or not. The payment schedule is based on Kazzinc guaranteeing minimum and maximum production rates of 40,000 and 60,000 tonnes per annum of zinc contained in ore, respectively, commencing at the start up of production or September 2006, whichever is the earlier.

Under certain conditions, the deferred consideration may be suspended by Kazzinc. Firstly, if the in-situ resource at a 5% cut-off is more than 25% below that reported to Kazzinc of 4.55 million tonnes at 21.14% zinc; and secondly, if there are certain events, largely of a *force majeure* nature, that prevent Kazzinc from mining the deposit.

Assuming that the zinc price stays at the current level of approximately \$1,050 per tonne during the mining of the first 200,000 tonnes of zinc, the deferred consideration would be worth US\$11.88 million to ZincOx, receivable between 2007 and 2011.

Kazzinc is moving ahead with the development of the Shaimerden open pit mine. The plan is to transport crushed ore from Shaimerden to Kazzinc's processing facilities at Ust-Kamenogorsk in the east of the country, where it will be treated in waelz kilns and by electrolysis for the production of zinc metal.



An electric arc furnace

Potential Feed Material

Potential Feed Material

Since its formation in 1997, the company has evaluated several processing technologies that have potential application to “oxide” (non-sulphide) zinc bearing ores and concentrates. The company now has various processes that can be applied alone, or in combination to recover zinc from a broad spectrum of zinc bearing materials. In recent years we have also examined the potential to use these technologies to recover zinc from waste products and secondary materials.

Secondary materials such as zinc dross and ashes from galvanising, are being recycled already but lower grade material trades at a discount to the price paid for each unit of zinc when compared to zinc in primary concentrate, and as such it represents an interesting source of feed material. However there is an established market for this material and market share would need to be won against competitors who have the likely advantage that they would have already paid back the capital cost of their plant.

Waste materials by definition have no market and there is frequently a cost to their disposal and storage. Waste materials are usually very dispersed and collection is difficult and expensive. There are, however, two notable exceptions. Lead smelter slags containing zinc, and dust from steel recycling in electric arc furnaces. Our interest in recycling has focused on these two materials.

Electric Arc Furnace Dust (EAFD)

Recycling of steel scrap accounts for about 50% of global steel production. Scrap is internationally traded and generally recycled in electric arc furnaces, or mini-mills as they are called in the United States. While steel production from primary iron ores is becoming increasingly unattractive in the more developed parts of the world, scrap recycling is increasing, not least due to the proximity of the feed material.

Scrap remelting and charging of the electric arc furnaces is a violent reaction requiring major ventilation. Small particles of iron are drawn into the flues together with elements volatilised by the process. The latter are oxidised by the injection of air into the flues and form oxides that precipitate as fine particles. These particles together with the fine iron are captured in filters and bagged as EAFD. Every tonne of recycled galvanised steel produces about 12kg to 18kg of EAFD.

Steel scrap generally contains a significant proportion of galvanised material and the zinc in this is volatilised and collected in the EAFD. The zinc grade in EAFD varies between about 12% and 30%.

There are approximately 3.2 million tonnes of EAFD produced throughout the world every year and this contains about 700,000 tonnes of zinc, which is about 7% of global demand.

EAFD is not amenable to treatment in existing zinc smelters and because it contains deleterious elements that are water soluble, it is regarded as a hazardous waste. EAFD is either sent to landfill or reprocessed to give a zinc oxide concentrate. Due to its hazardous nature landfill sites need to be specially constructed and landfill is quite costly so that steel mills pay a “Tipping Fee” for the disposal of each tonne of dust. EAFD re-processors take the dust and the Tipping Fee and use energy intensive fuming techniques to produce a concentrate from which halides need to be removed by washing, prior to sale to conventional smelters. Without the Tipping Fee these operations would not be viable.

Testwork by ZincOx on various EAFD samples from around the world has shown that much of the zinc can be recovered by leaching in sulphuric acid, followed by purification using solvent extraction, and metal production by electrowinning. This is essentially the same process that is being used at the Skorpion zinc operation, in Namibia.

Zinc production from EAFD still produces large quantities of residue and this will be costly to dispose of. Having said that, the company believes that the direct leaching of EAFD to recover zinc represents a viable and exciting business.



A typical lead slag dump

Potential Feed Material

EAFD is a potential feed material for the Polykiln process more fully described below. Piloting in the Polykiln is expected to be carried out before the end of the year. The Polykiln process is designed to produce a high grade zinc and lead concentrate more cheaply than traditional fuming techniques, and an inert slag suitable for construction purposes.

Of the EAFD producing areas of the world, two of the highest concentrations of plants are in the Istanbul area and near Izmir. Turkey is the 15th largest producer of steel in the world and produces over 200,000 tonnes of EAFD per annum. None of the EAFD is currently reprocessed. ZincOx is considering the construction of a plant to recycle Turkey's EAFD. Discussions have been held with almost all the major steel mills and they are strongly supportive of our plans, as are various government agencies. Discussions with relevant government departments are ongoing and SRK Consulting, in Turkey, have been retained to examine environmental aspects.

The halide rich concentrate produced by Polykiln and existing EAFD re-processors would be sufficiently valuable to be transported considerable distances. So, although not in an EAFD producing region, one of the potential sites being examined for a plant to treat these concentrates is Yanbu, in Saudi Arabia. Considerable progress was made at Yanbu when it was being considered as a site for the treatment of Jabali concentrate. ZincOx has Saudi Arabian Investment Authority approval for a zinc plant in the Industrial Zone at Yanbu and sites have been allocated for both the plant and residue storage. The company also has an allocation of natural gas that would allow the generation of extremely cheap power. It is the cheapness of power, traditionally the largest single component of zinc production operating costs, that makes Yanbu such an attractive location.

Slags

Lead deposits always contain some zinc. As a result lead concentrates contain varying proportions of zinc. During smelting of lead, zinc is rarely recovered and reports to the slag.

Slags have, in many parts of the world, been used in construction. Elsewhere, especially in more remote locations, the slags are stored as unsightly dumps at the lead smelters and remain as an environmental liability even after the smelter has closed. While most slag dumps are too small to merit consideration for re-processing there are some large dumps that can be considered.

Zinc occurs as oxide in lead slags but is not amenable to simple acid leaching as it is tightly held in the matrix of the slag and not available for dissolution. Zinc has for many years been recovered from slags and other materials by fuming. In fuming, slag is heated to over 1,100°C and reduced with coke. Zinc metal forms but immediately volatilises and is drawn onto the off gas where air is injected. The zinc re-oxidises in the air, forms particles that can be caught on filters from which it is recovered as zinc oxide.

Several fuming technologies have been evaluated but none provides sufficiently attractive returns to warrant development. Early in the year the company became aware of a new type of fuming equipment that had not been fully commercialised, the Polykiln process (see below). This has the potential to critically improve the economics of fuming.

The option agreement held by the company for the purchase of 50.1% of the Tsumeb slag in Namibia could not be exercised as planned since the amenability of its treatment using the Polykiln process had not at the time been confirmed, and hence the option was allowed to lapse. However we have an excellent relationship with Tsumeb's management and a new purchase option agreement timed to match the Polykiln testwork is being considered.

The company is now actively pursuing acquisitions of or joint ventures, over larger slag dumps. Negotiations are progressing steadily but agreements are unlikely to be concluded until the completion of the Polykiln pilot programme.

Review of Operations



1. Polykiln pilot plant
2. leach tanks
3. zinc cell house

Technology

Technology

The company now has a variety of processes at its disposal and the optimum application of these processes is being determined for each of the major EAFD producing regions of the world and for the reprocessing of lead slags.

Leaching

The company's basic flowsheet involves leaching of the feed in dilute sulphuric acid followed by filtration, solvent extraction of the zinc into a solution suitable for electrowinning. This is essentially the same flowsheet as that used in the Skorpion Project, in Namibia. In materials, where zinc cannot be extracted by leaching, the company is examining ways in which it may be concentrated into a form that will be leachable, see Polykiln below.

Concentrates from EAFD fuming still contain high levels of halides that would require washing out before the fume would be saleable to conventional zinc plants. However the leaching SX-EW process could treat such concentrate without halide washing thus significantly improving the economics of zinc production.

Towards the end of the year a patent was applied for on a new hydrochloric acid leaching process that will recover both zinc and lead. While capital costs may preclude economic treatment of EAFD, the process could be a very attractive way of treating halide rich zinc-lead oxide concentrates such as the Polykiln process could produce. Work on this technology is continuing.

Polykiln

The Polykiln process was invented in Kazakhstan at the end of the 1980's, and the development of a commercial design was being undertaken up until 1992 at which point central government funding ceased.

ZincOx has formed a new Kazakh company, RIF Zinc LLP with two of the scientists previously involved with the development of the process. RIF will initially design commercial process equipment and this phase is being funded entirely by ZincOx.

The Polykiln technology involves the fuming of zinc bearing slags using gas as the reducing agent rather than coke or coal. Capital and operating costs are expected to be significantly lower than traditional fuming technologies, such as the Waelz kiln. The fuming produces zinc and lead in an oxide concentrate that would be a very desirable feed for conventional zinc plants. In addition, the process produces a stable vitreous slag in which the lead should be at levels that do not preclude its use for road base or other construction uses. This would, therefore, allow complete recycling of the slag.

The technology has been tested both in the laboratory and at a small commercial scale. While these proved the success of the process, the small commercial plant was limited by mechanical and design shortcomings. A pilot plant was constructed in 1992 to refine the design of this equipment but operations were suspended due to a lack of finance. ZincOx is completing the refurbishment and modification of this pilot plant and tests are soon to begin on zinc bearing slags. Successful testing in the pilot plant will lead to the application for a number of patents.

ZincOx management believes the Polykiln process is applicable to zinc bearing materials other than slag, such as ore, concentrate and EAFD. However the potential to sell concentrates produced from these other feeds will depend on the concentration of minor impurities, such as halides. So, for example, in the case of concentrate produced from EAFD the high halide levels would severely reduce the value of the concentrate unless washing was performed. However, such impurities would not significantly affect the treatment of this concentrate in a plant using our leaching SX-EW technology.

Polykiln uses natural gas, this is a critical problem in areas where there is no gas supply, such as the Tsumeb project that we previously looked at. There is potential for the equipment to be modified to run on coke for such projects but this needs to be tested in the pilot plant. At Tsumeb the recovery of germanium is important to the economics of the project and its recovery would also need to be tested by piloting.

Directors and Advisers

N.J.J.Masson	68, Executive Chairman and founder of ZincOx. He is a metallurgist with over 35 years experience of the international zinc industry, mostly with Union Miniere, where he was chief executive officer.
A.C.Woollett	47, Managing Director. He is a geologist who has worked extensively in Africa involved with mineral exploration and development. He was a founder of Ivernia West plc and the founder and Executive Chairman of Reunion Mining PLC.
M.J.E.Foster	52, Director. He is the former managing director of Reunion Mining PLC. A graduate geologist with an MBA he has over 25 years experience in the mining industry. He is responsible for exploration and new business at ZincOx.
P.G.Fry	55, Finance Director. He is a Chartered Accountant with his own practice, P.G.Fry and Company. He joined the board on 30th July 2001 in a part time executive capacity.
J.Collins	60, Non-executive Director. He has over 40 years of exploration experience. He has an MSc and PhD in Economic Geology from Queens University, Kingston Ontario. He joined Cominco in 1965 and following its takeover is now at Teck Cominco Limited, where he is the vice-president, Exploration Business Department. He joined the board on 30th September 2003.
P.H.Beck	51, Non-executive Director. He was the head of worldwide Equity Brokerage at the time he left Paribas Capital markets in 1999. He joined the board on 2nd August 2001.
Secretary	P.F. Wynter Bee
Registered Number	3800208
Registered Office	7 Tanners Yard London Road Bagshot GU19 5HD

ADVISERS

Nominated Adviser and Broker	Numis Securities Limited Cheapside House 138, Cheapside London EC2V 6LH	Solicitors	Stringer Saul 17, Hanover Square London W1R 9AJ
Bankers	Barclays Bank PLC London Corporate Banking Pall Mall London SW1A 1QB	Registrars	Capita Registrars The Registry 34, Beckenham Road Beckenham Kent BR3 4TU
Auditors	Grant Thornton UK LLP 31, Carlton Crescent Southampton SO15 2EW		

Directors' Report

For the year ended 31st December 2003

The Directors submit their report and the audited financial statements of the Company and Group for the year ended 31st December 2003.

Principal Activities

The principal activity of the Group is the re-evaluation, exploration and development of zinc oxide material. The Company acts as an exploration and holding company.

Review of the Business

A detailed review of the business and future developments is included in the Chairman's Statement and the Review of Operations.

The Group made a consolidated profit after tax of £1,818,787 for the year ended 31st December 2003 (year to 31st December 2002 – loss of £1,082,350). The Directors do not recommend the payment of a dividend, and the profit for the period will be transferred to the accumulated profit and loss reserve in the financial statements.

Directors and their interests

The names of the present Board and their details are set out on page 9.

In accordance with the Company's Articles of Association, M.J.E.Foster, P.G.Fry and J.Collins retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

M.J.E.Foster entered into a service contract with the Company on 5th November 2001 for 1 year, thereafter the contract can be terminated on 12 months notice.

P.G.Fry entered into a letter of appointment with the Company on 5th November 2001 for 1 year, thereafter the appointment can be terminated on 3 months notice.

J.Collins was appointed a non-executive Director on 30th September 2003 and entered into a letter of appointment with the Company on 9th February 2004 for 1 year, thereafter the appointment can be terminated on 3 months notice.

The Directors who held office during the period and their shareholdings were as follows: -

	31st December 2003				1st January 2003			
	Ordinary Shares At £0.25	Options	Size of Holding %		Ordinary Shares At £0.25	Options	Size of Holding %	
Noel Masson	1,945,000	625,257	8.23%	(9.68%)	1,945,000	484,175	8.66%	(11.43%)
Andrew Woollett	1,740,000	405,257	7.36%	(8.08%)	1,740,000	264,175	7.75%	(9.43%)
Michael Foster	504,000	365,257	2.13%	(3.27%)	504,000	224,175	2.33%	(3.43%)
Peter Fry	49,619	65,852	0.21%	(0.43%)	25,000	30,582	0.11%	(0.26%)
Peter Beck	70,000	-	0.30%	(0.26%)	70,000	-	0.31%	(0.33%)
Jon Collins (Appointed 30.9.2003)	-	-	-	-	-	-	-	-
Bryan Morris (Resigned 30.9.2003)	-	-	-	-	-	-	-	-
	4,308,619	1,461,623	18.23%	(21.72%)	4,284,000	1,003,107	19.16%	(24.88%)

Bracketed figures assume the exercise of all options. The shares in which N.Masson has an interest are registered in the name of Geology, Mines and Metallurgy Consultancies Limited. 800,000 of the shares of A.Woollett are registered in the name of EFG Reads Trustees Limited. 20,000 of the shares in which M Foster has an interest are registered in the name of his wife.

The terms of options are disclosed in note 14 to the financial statements.

Related Party Transactions

Details of Related Party Transactions are disclosed in note 2(c) to these accounts.

Share Capital

During the year, the Company issued 3,991,447 Ordinary Shares of 25p each, at an average premium of £0.22 per share, in order to finance the further feasibility expenditure of the Group.

On 20th July 2003, the Company granted an option to Numis Securities Limited to subscribe for 587,533 Ordinary 0.25p Shares in the Company at 0.49p per share.

Substantial Shareholdings

As at 10th June 2004 the Directors, in addition to their own holdings, have been notified of the following substantial interests equal to or greater than 3% of the issued share capital of the Company.

	Number of Ordinary Shares	% of Issued Share Capital
New Opportunities Investment Trust PLC	3,172,222	13.43%
Teck Cominco Limited	3,000,000	12.70%
Sloane Robinson Investment Management Limited	1,446,316	6.12%
M & G Securities Limited	1,321,316	5.59%
Hoegh Capital Partners Investments Limited	1,317,982	5.58%
Rockover Resources Limited	1,036,000	4.38%
Invesco English and International Trust PLC	994,924	4.21%

Statement of Directors' Responsibilities

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for the financial year then ended.

In preparing those financial statements, the Directors are required to: -

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the annual report, is prepared in accordance with company law in the United Kingdom.

The maintenance and integrity of the ZincOx Resources plc website is the responsibility of the Directors: the work carried out by the auditors does not involve consideration of these matters, and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

CORPORATE GOVERNANCE

General

The maintenance of effective corporate governance remains a key priority for the Board of ZincOx. The Company supports the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority. It complies where this is commercially justified, allowing for the practical limitations relating to the Company's size.

The Board of Directors

The Board meets regularly and includes two non-executive Directors.

There are two permanent committees of the Board, details of which are given below. Selection and appointment of Directors are the responsibility of the whole Board.

Internal Controls

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the company's objectives. Any such system of internal control can only provide reasonable, but not absolute assurance against material misstatement or loss.

Full board meetings are held quarterly to review Group strategy, direction and financial performance. The executive Directors meet monthly to review operational reports from all the group's areas of operations. The process is used to identify major business risks and evaluate their financial implications and ensures an appropriate control environment. Certain control over expenditure is delegated to on site project managers subject to board control by means of monthly budgetary reports.

Internal financial control procedures include: -

- Preparation and regular review of operating budgets and forecasts
- Prior approval of all capital expenditure
- Review and debate of treasury policy
- Unrestricted access of non-executive Directors to all members of senior management.

The Board, in conjunction with the Audit Committee, has reviewed the effectiveness of the system of internal financial controls for the period from 1st January 2003 to the date of this report.

International Financial Reporting Standards ("IFRS")

The Group is preparing for the adoption of IFRS in 2005. This includes a detailed comparison of the Group's existing accounting policies with IFRS and an evaluation of the impact on the financial statements in terms of presentation and reported performance.

Report of the Audit Committee

The Audit Committee is chaired by Peter Beck and is formally constituted with written terms of reference. Under these terms of reference, the Audit Committee may examine any matters relating to the financial affairs of the Group and the Group's audits; this includes reviews of the annual financial statements and announcements, internal control procedures, accounting policies, the appointment and fees of external auditors and such other related functions as the Board may require.

The membership of the Audit Committee comprises two non-executive Directors, Peter Beck and Jon Collins. The Chairman, Managing Director and Finance Director are not members, but may be invited to attend meetings of the Committee, which meets at least twice per year. The external auditors also attend for part of two meetings per annum and they have direct access to the members of the Committee without the presence of the executive Directors for independent discussions.

Report of the Remuneration Committee

The Remuneration Committee is chaired by Peter Beck and comprises two non-executive Directors, Peter Beck and Jon Collins. It determines the terms and conditions including annual remuneration of the executive Directors. The Committee consults the Chairman about its proposals and has access to professional advice from inside and outside the Company.

The key policy objectives of the Remuneration Committee in respect of the Company's executive Directors and other senior executives are: -

- a) to ensure that individuals are fairly rewarded for their personal contribution to the company's overall performance; and
- b) to act as an independent committee ensuring that due regard is given to the interests of the Company's Shareholders and to the financial and commercial health of the Company.

Remuneration of executive Directors comprises basic salary, discretionary bonuses, pensions, participation in the Company's Share Option Scheme and other benefits.

The Committee in consultation with the Chairman considers incentives including options, which are granted at an option price equivalent to the market price at the relevant time. The amount of each individual's incentive is determined by reference to the personal performance appropriate to their particular executive responsibilities.

Details of Directors' emoluments are disclosed in note 2b to the financial statement and the Directors' option are disclosed above. Details of the service contracts of Directors proposed for re-election are set out on page 10.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Since the year end, proceeds of the sale of Closed Joint Stock Company Shaimerden have been received reducing the amount of debtors due within one year by £4.1m.

Social and Environmental Policy

The Company is committed to the proper stewardship of the earth's natural resources and the environment and to carrying out all its activities in a socially responsible manner as it sees its own long-term success being directly related to the adherence to these principles. It fully accepts and encourages the employment and improvement of the local communities so that they receive benefit and ultimately are left as both short and long term beneficiaries of the Company's operations. This policy includes the following values:

- Treating all parties with equity and respect;
- Promoting transparent business relationships;
- Understanding and respecting the rights of indigenous peoples to retain their culture, identity, customs and traditions; and
- Developing self reliability through education and training.

The Company is further committed to the protection of the environment and strongly recognises that sound environmental management is essential for its long-term aims and ambitions.

Understanding, minimising and mitigating all environmental impacts, as well as using all resources prudently and efficiently, is critically important to the Company. Each project feasibility study it carries out contains a full environmental assessment which includes a base line study, an impact assessment and management and closure plans.

Creditor Payment Terms

The Group had trade creditors of £59,946 at 31st December 2003, and generally settles within 30 days. It is the Group's policy to settle balances with creditors in accordance with agreed terms of supply and with market practice in the relevant country. Trade creditors at the balance sheet date represented 30 days of average supplies for the period.

Auditors

On 1st July 2004, the Grant Thornton partnership will transfer its business to a limited liability partnership, Grant Thornton UK LLP and the directors have agreed to extend the audit appointment to Grant Thornton UK LLP with effect from 1st July 2004 in accordance with section 26(5) of the Companies Act 1989.

Grant Thornton UK LLP have signified their willingness to continue in office in accordance with Section 385 of the Companies Act 1985. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Peter Wynter Bee

Company Secretary

21st June 2004

Independent Auditors' Report

To the members of ZincOx Resources plc

We have audited the financial statements of ZincOx Resources plc for the year ended 31st December 2003 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds, the balance sheets, the consolidated cash flow statement and notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement and the review of operations. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

Registered Auditors

Chartered Accountants

Southampton

21st June 2004

Consolidated Profit and Loss Account

For the year ended 31st December 2003

	Notes	31st Dec 2003 £	31st Dec 2002 £
Turnover		-	-
Cost of Sales		-	-
Gross Profit		-	-
Exploration Costs		(231,458)	(630,423)
Administrative Expenses		(650,876)	(439,713)
Operating Loss	2	(882,334)	(1,070,136)
Exceptional Item			
Profit/(Loss) on disposal of fixed assets	3	2,975,522	(61,329)
Profit/(Loss) on Ordinary Activities before Interest		2,093,188	(1,131,465)
Net Interest receivable and similar income	4	9,741	49,115
Amounts written off investments	11	(280,000)	-
Profit/(Loss) on Ordinary Activities before Tax		1,822,929	(1,082,350)
Taxation	5	(4,142)	-
Profit/(Loss) for the year taken to Reserves	15	1,818,787	(1,082,350)
Earnings/(Loss) per Ordinary Share (Basic and Diluted)	6	0.08	(0.06)

All operations are continuing.

The accompanying accounting policies and notes form an integral part of these accounts.

Other Primary Statements

For the year ended 31st December 2003

Consolidated Statement of Total Recognised Gains and Losses

	31st Dec 2003 £	31st Dec 2002 £
Profit/(Loss) for the period taken to reserves	1,818,787	(1,082,350)
Differences on foreign currency net investments	930	(109,329)
	<hr/>	<hr/>
Total Recognised Gains and (Losses) for the Year	1,819,717	(1,191,679)
	<hr/>	<hr/>

Reconciliation of Movements in Consolidated Shareholders' Funds

	31st Dec 2003 £	31st Dec 2002 £
Profit/(Loss) for the Period	1,818,787	(1,082,350)
Other Recognised Gains and Losses	930	(109,329)
New Share Capital and Related Share Premium	1,807,721	1,438,999
	<hr/>	<hr/>
Net Movement in Shareholders' Funds	3,627,438	247,320
Opening Shareholders' Funds	4,776,191	4,528,871
	<hr/>	<hr/>
Closing Shareholders' Funds	8,403,629	4,776,191
	<hr/>	<hr/>

The accompanying accounting policies and notes form an integral part of these accounts.

Consolidated Balance Sheet

As at 31st December 2003

	Notes	31st Dec 2003 £	31st Dec 2002 £
Fixed Assets			
Intangible Assets	8	3,002,179	4,518,576
Negative Goodwill	9	–	(1,643,466)
Tangible Assets	10	16,465	34,339
Investments	11	1,423,104	1,703,104
		<hr/>	<hr/>
		4,441,748	4,612,553
		<hr/>	<hr/>
Current Assets			
Debtors due within one year	12	4,210,585	117,879
Cash at Bank and in Hand		105,172	305,669
		<hr/>	<hr/>
		4,315,757	423,548
Creditors – amounts falling due within one year	13	(353,876)	(259,742)
		<hr/>	<hr/>
Net Current Assets		3,961,881	163,806
		<hr/>	<hr/>
Total assets less current liabilities		8,403,629	4,776,359
		<hr/>	<hr/>
Capital and Reserves			
Called up Share Capital	14	5,906,943	4,909,081
Share Premium	15	5,188,848	4,378,989
Other Reserves	15	(1,004,582)	(1,005,512)
Profit and Loss Account	15	(1,687,580)	(3,506,367)
		<hr/>	<hr/>
Equity Shareholders' Funds		8,403,629	4,776,191
		<hr/>	<hr/>
Minority Interest – equity		–	168
		<hr/>	<hr/>
Total Capital & Reserves		8,403,629	4,776,359
		<hr/>	<hr/>

Approved by the Directors on: 21st June 2004

Peter Fry
Director

The accompanying accounting policies and notes form an integral part of these accounts.

Company Balance Sheet

As at 31st December 2003

	Notes	31st Dec 2003 £	31st Dec 2002 £
Fixed Assets			
Intangible Assets	8	2,966,756	2,431,642
Tangible Assets	10	9,793	21,505
Investments	11	1,449,996	1,840,407
		<u>4,426,545</u>	<u>4,293,554</u>
Current Assets			
Debtors due within one year	12	4,197,711	71,715
Debtors due after one year	12	25,703	443,272
Cash at Bank and in Hand		92,506	250,721
		<u>4,315,920</u>	<u>765,708</u>
Creditors – amounts falling due within one year	13	(338,190)	(199,856)
		<u>3,977,730</u>	<u>565,852</u>
Net Current Assets			
		<u>3,977,730</u>	<u>565,852</u>
Total assets less current liabilities			
		<u>8,404,275</u>	<u>4,859,406</u>
Creditors – amounts falling due after one year	13	(3,024,321)	–
		<u>5,379,954</u>	<u>4,859,406</u>
Net Assets			
		<u>5,379,954</u>	<u>4,859,406</u>
Capital and Reserves			
Called up Share Capital	14	5,906,943	4,909,081
Share Premium	15	5,188,848	4,378,989
Profit and Loss Account	15	(5,715,837)	(4,428,664)
		<u>5,379,954</u>	<u>4,859,406</u>
Equity Shareholders' Funds			
		<u>5,379,954</u>	<u>4,859,406</u>

Approved by the Directors on: 21st June 2004

Peter Fry
Director

The accompanying accounting policies and notes form an integral part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Notes	31st Dec 2003 £	31st Dec 2002 £
Net Cash Outflow from Operating Activities	16	(523,257)	(498,927)
Returns on Investments and Servicing of Finance			
Interest received		9,741	49,115
Net Cash Inflow from Returns on Investments and Servicing of Finance		9,741	49,115
Capital Expenditure and Financial Investment			
Purchase of Intangible Fixed Assets		(1,401,716)	(1,546,987)
Purchase of Tangible Fixed Assets		(3,140)	(12,032)
Purchase of investments		-	(74,934)
Net cash outflow from Capital Expenditure and Financial Investment		(1,404,856)	(1,633,953)
Acquisitions and Disposals			
Acquisition of subsidiary		-	(32,171)
Net cash outflow from acquisitions		-	(32,171)
Management of Liquid Resources			
Sale of Short Term Deposits		200,000	2,160,000
Net Cash Inflow from management of Liquid Resources		200,000	2,160,000
Financing			
Issue of Shares for Cash		1,742,500	24,000
Expenses paid in connection with share issue		(24,625)	-
Net cash inflow from financing		1,717,875	24,000
(Decrease)/increase in Cash	16	(497)	68,064

The accompanying accounting policies and notes form an integral part of these accounts.

Notes to the Financial Statements

For the year ended 31st December 2003

1. Accounting policies

(a) Accounting Convention and Basis of Preparation of Financial Statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Statement of Recommended Practice: Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities (revised June 2001). The principal accounting policies of the group are set out below. The policies have remained unchanged from the previous year.

(b) Basis of Consolidation and Presentation of Financial Information

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings all made up to 31st December 2003. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

(c) Tangible Assets and Depreciation

Tangible fixed assets are stated at historical cost less depreciation. Depreciation is provided on a straight line basis at rates calculated to write-off the cost less estimated residual value of each asset over its expected useful economic life, as follows:

Computer Equipment	- 4 years
Fixtures and Fittings	- 4 years

(d) Intangible Assets

Deferred exploration costs, including the group's contribution to project costs, of exploring for, and exploiting mineral resources, which include acquisition costs, geological and geophysical costs, costs of drilling, piloting and the development of metallurgical processes and related overheads, are treated as intangible fixed assets.

The directors regularly review each project on a technical and commercial basis. In the event that it becomes evident that such costs are unlikely to be recovered from future revenues, they are written-off immediately to the profit and loss account.

On the commencement of a mine development, all project costs are transferred to tangible assets.

(e) Investments

Fixed asset investments are stated at cost less provision for diminution in value. Sales are accounted for on exchange and deferred consideration is not recognised until received.

(f) Pensions

The pension costs charges in the financial statements represent the contributions payable during the period to defined contribution schemes.

(g) Foreign Currency

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves.

(h) Leased Assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represent a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

(i) Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

continued

1. Accounting policies *continued*

(j) Financial Instruments

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited to the profit and loss account in the financial period to which it relates.

(k) Goodwill

Negative goodwill has been transferred to the Profit and Loss Account following the disposal of the Shaimerden Closed Joint Stock Company.

Goodwill arising on consolidation represents the excess of the fair value of the consideration given, over the fair values of the identifiable net assets acquired.

2(a) Operating Profit/(Loss)

Operating loss is stated after charging: -

	31st December 2003	31st December 2002
	£	£
Auditors' Remuneration		
Audit Services	17,500	16,500
Non-audit services	5,700	5,000
Depreciation	15,282	12,894
Other Operating Leases	33,888	31,400
	<hr/>	<hr/>

Non-audit services comprise fees for tax compliance.

(b) Directors and Employees

The average number of persons employed by the Group and the Company (including Directors) during the period was 9 (31st December 2002 – 9).

	31st December 2003	31st December 2002
	£	£
Wages and Salaries	411,090	398,650
Social Security Costs	44,410	71,347
Pensions	51,862	48,792
	<hr/>	<hr/>
	507,362	518,789
	<hr/>	<hr/>

Remuneration in respect of Directors was as follows: -

	31st December 2003	31st December 2002
	£	£
Emoluments	336,404	336,332
Pension Contributions	30,011	30,009
	<hr/>	<hr/>
	366,415	366,341
	<hr/>	<hr/>

Highest paid Director emoluments – £124,415 (31st December 2002 – £123,842). The number of Directors participating in defined contribution pension schemes was two (31st December 2002 – two).

(c) Related Party Transactions

During the period ended 31st December 2003, the Group paid £100,000 (31st December 2002 – £100,000) for consultancy services and associated expenses to Geology Mines and Metallurgy Consultancies Limited, a company in which Noel Masson, ZincOx Resources Chairman, has an interest.

During the period ended 31st December 2003, the group paid £28,275 (31st December 2002 – £24,100) for accounting and book-keeping services to P.G.Fry and Company, a firm in which Peter Fry, the Finance Director has an interest.

3. Profit/(Loss) on disposal of fixed assets

	31st December 2003	31st December 2002
	£	£
Profit on disposal of Shaimerden Closed Joint Stock Company	2,981,282	–
Loss on disposal of ZincOx de Guatemala SA.	–	(61,329)
Loss on disposal of tangible fixed assets	(2,158)	–
Costs of disposal of fixed assets	(3,602)	–
	<hr/> 2,975,522 <hr/>	<hr/> (61,329) <hr/>

4. Net Interest

	31st December 2003	31st December 2002
	£	£
Bank Interest Received	9,741	49,115
	<hr/> 9,741 <hr/>	<hr/> 49,115 <hr/>

5. Taxation

The tax assessed for the period is lower than the standard rate of corporation tax in the UK 30% (2002 – 20%).

The differences are explained as follows:

	31st December 2003	31st December 2002
	£	£
Profit/(Loss) on ordinary activities before tax	1,822,929	(1,082,350)
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 20%).	546,879	(216,470)
Effect of:		
Disallowed management expenses	102,176	33,719
Increase in UK tax losses	249,207	145,830
Overseas (gains)/losses	(894,120)	36,921
	<hr/> (542,737) <hr/>	<hr/> 216,470 <hr/>
Current tax charge for period	4,142	–
Unprovided deferred tax asset:		
UK tax loss carried forward multiplied by standard rate of UK corporation tax at 30% (2002 – 20%)	806,039	351,331
	<hr/> 806,039 <hr/>	<hr/> 351,331 <hr/>

The Directors consider there to be no material liability to taxation for the period for the Group (31st December 2002 – Nil).

Notes to the Financial Statements

continued

6. Earnings/(Loss) per Share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is based on the basic earnings per share adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

Reconciliation of the earnings and weighted average number of shares in the calculations are set out below.

	31st December 2003			31st December 2002		
	Earnings £	Weighted average number of shares	Per Share Amount (pence)	Loss £	Weighted average number of shares	Per Share Amount (pence)
Basic Earnings						
Earnings/Loss attributable to ordinary shareholders	1,818,787	22,084,753	8.24	(1,082,350)	17,107,083	(6.33)
Dilutive effect of securities						
Options		512,053				
Diluted Earnings	<u>1,818,787</u>	<u>22,596,806</u>	<u>8.05</u>			

7. Profit for the Financial Period

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The loss for the Company was £1,287,173 (31st December 2002 – £3,199,307). Of this sum, £145,998 is a provision for the losses involved in the liquidation of certain subsidiary Companies.

8. Intangible Assets

Deferred Exploration Costs	Group	Company
	£	£
Cost		
As at 1st January 2003	5,659,124	2,626,665
Additions	1,401,716	1,208,042
Amounts written off	(1,372,006)	(867,951)
Disposal of Subsidiary	(2,686,655)	–
As at 31st December 2003	<u>3,002,179</u>	<u>2,966,756</u>
Provisions		
At 1st January 2003	(1,140,548)	(195,023)
Amounts written off	1,140,548	195,023
As at 31st December 2003	<u>–</u>	<u>–</u>
Net Book Value		
As at 31st December 2003	<u>3,002,179</u>	<u>2,966,756</u>
As at 31st December 2002	<u>4,518,576</u>	<u>2,431,642</u>

9. Negative Goodwill

Negative goodwill of £1,643,466 represented the net surplus on acquisition of Zinc Corporation of Kazakhstan Limited/Shaimerden Closed Joint Stock Company. This has been transferred to the Profit and Loss Account, following the disposal of the latter Company.

10. Tangible Assets

Group	Fixtures & Fittings £	Computer Equipment £	Total £
Cost			
At 1st January 2003	39,593	44,926	84,519
Additions	–	3,140	3,140
Disposal of subsidiary	(17,186)	–	(17,186)
Disposals	(3,485)	(5,303)	(8,788)
At 31st December 2003	18,922	42,763	61,685
Depreciation			
At 1st January 2003	25,689	24,491	50,180
Charge for the year	4,509	10,773	15,282
Released on disposal of subsidiary	(13,612)	–	(13,612)
Released on disposals	(3,266)	(3,364)	(6,630)
At 31st December 2003	13,320	31,900	45,220
Net Book Value			
As at 31st December 2003	5,602	10,863	16,465
As at 31st December 2002	13,904	20,435	34,339
Company			
	Fixtures & Fittings £	Computer Equipment £	Total £
Cost			
At 1st January 2003	17,535	30,743	48,278
Additions	–	1,833	1,833
Disposals	(3,485)	(5,303)	(8,788)
At 31st December 2003	14,050	27,273	41,323
Depreciation			
At 1st January 2003	9,857	16,916	26,773
Charge for the year	3,945	7,442	11,387
Released on disposals	(3,266)	(3,364)	(6,630)
At 31st December 2003	10,536	20,994	31,530
Net Book Value			
As at 31st December 2003	3,514	6,279	9,793
As at 31st December 2002	7,678	13,827	21,505

Neither the Group nor the Company had any capital commitments at 31st December 2003 or 31st December 2002.

Notes to the Financial Statements

continued

11. Investments

Investments comprise the following: -

Investments	Group £	Company £
Cost of Shares		
At 1st January 2003	1,703,104	1,840,407
Exchange Differences	–	(3,677)
Acquisitions	–	15,182
	<hr/>	<hr/>
At 31st December 2003	1,703,104	1,851,912
Impairment during the year	(280,000)	(401,916)
	<hr/>	<hr/>
Net book value 31st December 2003	1,423,104	1,449,996

	Group		Company	
	31st December 2003 £	31st December 2002 £	31st December 2003 £	31st December 2002 £
ZincOx Resources BV	–	–	–	–
ZincOx Belgium Sprl	–	–	11,610	11,610
Zinc Corporation of Kazakhstan	–	–	100	125,693
Redhawk Resources Inc.	288,104	288,104	288,104	288,104
New Opportunities Investment Trust PLC	1,135,000	1,415,000	1,135,000	1,415,000
RIF Zinc LLP	–	–	15,182	–
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cost	1,423,104	1,703,104	1,449,996	1,840,407

The net book value of the group's investments includes £1,423,104 (31st December 2002 – £1,703,104) in respect of listed investments. The market value of these investments was £1,124,155 (31st December 2002 – £993,654)

On 19th February 2004 the Company sold 725,000 shares in NOIT at £0.72 per share.

On 23rd February 2004 the Company sold a further 275,000 shares at £0.72 per share.

Provision of £280,000 has been made for the loss incurred.

At the balance sheet date the Group held 11.67% (31st December 2002 – 24.32%) of Redhawk Resources Inc.

ZincOx Resources B V was liquidated on 31st March 2004 as the cost/benefits of operating such a subsidiary are no longer justified.

Jabali Resources B V was liquidated on 9th December 2003.

On 12th December 2003, Zinc Corporation of Kazakhstan sold its subsidiary Shaimerden Closed Joint Stock Company. The profit on disposal is included in these consolidated financial statements and the related negative goodwill arising on the acquisition has been released. In addition to the cash proceeds, the Group is entitled to receive deferred consideration in the form of a royalty on the first 200,000 tonnes of zinc contained in ore mined from the deposit, at a rate equivalent to US\$0.2375 per tonne for every dollar that the LME zinc price is above US\$800 per tonne. Because of the uncertainty as to the amount potentially receivable, no debtor for the deferred consideration has been included in these financial statements.

11. Investments *continued*

Interest in Subsidiary Undertakings

The subsidiary undertakings at 31st December 2003, all of which are included in the consolidated financial statements, are shown below: -

Name of Undertaking	Country of Incorporation/ Registration and Operation	Principal Activities	Proportion of Issued Shares and Voting Rights held by the Company and the Group
ZincOx Resources BV	The Netherlands	Exploration	100%
ZincOx Belgium Sprl	Belgium	Metallurgical Research	100%
Zinc Corporation of Kazakhstan Limited	British Virgin Islands	Holding	100%
RIF Zinc LLP	Kazakhstan	Metallurgical Processing	100%

Subsidiaries acquired during the year

In October 2003, RIF Zinc LLP was formed and ZincOx Resources PLC acquired 100% of the issued Charter Capital at that date, at a cost of £15,182. All the expenditure by RIF Zinc LLP to 31st December 2003 was on deferred exploration costs.

12. Debtors

	Group		Company	
	31st December 2003 £	31st December 2002 £	31st December 2003 £	31st December 2002 £
Amounts owed by Group Undertakings	–	–	25,703	443,272
Deposits	15,700	15,700	15,700	15,700
Other Debtors	4,159,422	71,510	4,146,548	25,582
Prepayments	35,463	30,669	35,463	30,433
	4,210,585	117,879	4,197,711	71,715
	4,210,585	117,879	4,223,414	514,987

Other Debtors includes £4,138,319 for the proceeds of the sale of the Shaimerden Joint Closed Stock Company, which were received on 19th March 2004.

The Directors do not expect the intra-group balances to be cleared within twelve months.

Notes to the Financial Statements

continued

13. Creditors

a) Amounts Falling Due Within One Year

	Group		Company	
	31st December 2003 £	31st December 2002 £	31st December 2003 £	31st December 2002 £
Trade Creditors	59,946	39,146	57,243	33,913
Taxation and Social Security	16,620	11,996	12,478	11,996
Accruals	273,708	154,652	264,867	151,742
Other Creditors	3,602	53,948	3,602	2,205
	<u>353,876</u>	<u>259,742</u>	<u>338,190</u>	<u>199,856</u>

b) Amounts Falling Due after One Year

	Group		Company	
	31st December 2003 £	31st December 2002 £	31st December 2003 £	31st December 2002 £
Amounts owed to Group Undertakings	-	-	3,024,321	-
	<u>-</u>	<u>-</u>	<u>3,024,321</u>	<u>-</u>

14. Share Capital

	31st December 2003 £	31st December 2002
Authorised		
40,000,000 Ordinary Shares of £0.25 each	<u>10,000,000</u>	<u>10,000,000</u>
Allotted, issued and fully paid		
Ordinary Shares of £0.25 each	<u>5,906,943</u>	<u>4,909,081</u>

During the period ended 31st December 2003, 3,991,447 Ordinary Shares of £0.25 each were issued at premiums of £0.15 to £0.465 per share. This increased the total shares issued to 23,627,772 Ordinary Shares of £0.25 each (31st December 2002 – 19,636,325).

In addition there are 2,937,764 options, 1,461,623 available to Directors (see Directors' Report) and 1,476,141 to eligible persons. The price of each option is between £0.25 and £0.65. These options cannot be exercised for two years from the date they were granted, and must be exercised within ten years from that date. If all the options had been exercised the number of shares at the end of the financial period would have been 26,565,536.

The highest and lowest price of the company's shares during the year was 73.5p and 39p respectively, and the share price at the end of the year was 67.5p.

14. Share Capital *continued*

The following is the share movement in the shares, share capital and share premium during the year: -

	Date	Share Number	Share Price £	Share Capital £	Share Premium £
At 1st January 2003		19,636,325		4,909,081	4,378,989
Share placing for cash	21.2.2003	1,250,000	0.40	312,500	187,500
Share placing for cash	24.6.2003	2,615,789	0.475	653,947	588,553
Share placing*	29.10.2003	125,658	0.715	31,415	58,431
		<u>23,627,772</u>		<u>5,906,943</u>	<u>5,213,473</u>
Deduct: Expenses paid on share placing					(24,625)
					<u>5,188,848</u>

* The deferred consideration paid for the acquisition of the Shaimerden deposit.

Details of the Company Share Options

		Exercise Price £	Date from which exercisable	Expiry Date
18th October 1999	840,000	0.25	18th October 2001	18th October 2009
14th June 2001	547,310	0.65	14th June 2003	14th June 2011
30th September 2002	222,222	0.45	30th September 2004	30th September 2012
20th July 2003	587,553	0.49	20th July 2005	20th July 2013
1st August 2003	740,679	0.54	1st August 2005	1st August 2013
	<u>2,937,764</u>			

15. Share premium account and Reserves

	Share Premium £	Other Reserves £	Profit & Loss Account £
Group			
At 1st January 2003	4,378,989	(1,005,512)	(3,506,367)
Issue of Ordinary Shares (net)	809,859	-	-
Profit for the year	-	-	1,818,787
Translation Adjustments	-	930	-
As at 31st December 2003	<u>5,188,848</u>	<u>(1,004,582)</u>	<u>(1,687,580)</u>
Company			
At 1st January 2003	4,378,989	-	(4,428,664)
Issue of Ordinary Shares (net)	809,859	-	-
Loss for the year	-	-	(1,287,173)
As at 31st December 2003	<u>5,188,848</u>	<u>-</u>	<u>(5,715,837)</u>

Other reserves consist of accumulated losses on exchange.

Notes to the Financial Statements

continued

16. Net Cash Flow from Operating Activities

	31st December 2003 £	31st December 2002 £
Operating loss	(882,334)	(1,070,136)
Depreciation less costs of disposal of fixed assets	11,680	12,894
Deferred Exploration costs written-off	231,458	695,260
Losses on foreign exchange translations	(2,746)	(109,329)
Increase in Debtors	45,613	(21,628)
Increase/(Decrease) in Creditors	73,072	(5,988)
	<hr/>	<hr/>
Net Cash outflow from operating activities	(523,257)	(498,927)
	<hr/>	<hr/>

Reconciliation of Net Cash Flow to Movement in Funds

	31st December 2003 £	31st December 2002 £
(Decrease)/increase in cash in the year	(497)	68,064
Cash inflow from reduction in liquid resources	(200,000)	(2,160,000)
	<hr/>	<hr/>
Movement in net funds in the period	(200,497)	(2,091,936)
Opening net funds	305,669	2,397,605
	<hr/>	<hr/>
Closing Net Funds	105,172	305,669
	<hr/>	<hr/>

Analysis of Changes in Net Funds

	At 1st January 2003 £	Cashflow £	Sale of Short Term Deposits £	At 31st December 2003 £
Cash in Hand and at Bank	105,669	(497)	–	105,172
Short Term Deposits	200,000	–	(200,000)	–
	<hr/>	<hr/>	<hr/>	<hr/>
	305,669	(497)	(200,000)	105,172
	<hr/>	<hr/>	<hr/>	<hr/>

17. Lease Commitments

Operating lease payments amounting to £33,888 (31st December 2002 – £31,400) are due within one year and relate solely to leases incurred on land and buildings due to expire within 2 to 5 years of the balance sheet date.

18. Financial Instruments

The group uses financial instruments, other than derivatives, comprising cash, liquid resources and various items such as debtors, creditors and other items that arise directly from its operations.

The main risk arising from the Group's financial instruments are foreign currency risk and liquidity risk. The Directors review and agree policies for managing their risks, which include obtaining appropriate advice, and these are summarised below.

Short term debtors and creditors have been excluded from the following disclosures, except those relating to foreign currency risk.

Foreign Currency Risk

Exposure of foreign currency risk is minimal and relates to the payment of foreign suppliers. These are on normal terms. The group does not carry out any hedging to cover this exposure risk.

Liquidity Risk

The Group seeks to manage financial risk to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably and this is done with treasury deposits with the Company's bankers.

Fair Values

The fair values of the Group's financial instruments other than investments are considered equal to the book value.

Notice of Annual General Meeting

Notice is hereby given that the 2004 Annual General Meeting of ZincOx Resources plc will be held at 5th Floor, 17 Hanover Square, London W1S 1HU on Friday 30th July 2004 at 11.30am for the purpose of transacting the following business: -

- 1) To receive and adopt the Directors' Report and Financial Statements for the period ended 31st December 2003 together with the Auditors' Report.
- 2) To re-elect M.J.E. Foster as a Director of the Company, retiring in accordance with Article 102 of the company's Articles of Association.
- 3) To re-elect P.G. Fry as a Director of the company, retiring in accordance with Article 102 of the company's Articles of Association.
- 4) To re-elect J. Collins as a Director of the company, retiring in accordance with Article 108 of the company's Articles of Association.
- 5) To re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to fix the auditors' remuneration. On 1st July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1st July 2004.

That AS SPECIAL BUSINESS to consider, and if thought fit, pass through the following resolutions of which Resolution 6 will be proposed as an Ordinary Resolution and Resolution 7 will be proposed as a Special Resolution: -

- 6) THAT the Directors be and they are hereby generally and unconditionally authorised (in substitution for all the previous authorities in that regard) to exercise all of the powers of the company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount representing £2,703,422 of the issued share capital. Provided that the authority shall expire at the conclusion of the next Annual General Meeting of the company or on 30 October 2005 (whichever is earlier) unless and to the extent that such authority is renewed or extended prior to or at such meeting so that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted in pursuance of such offer or agreement as if the authority conferred hereby had not expired;
- 7) THAT the Directors be and they are hereby empowered pursuant to Section 96 of the Companies Act 1985 ("the Act"), in substitution for all previous powers granted thereunder, to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority granted by the foregoing resolution as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to the allotment of equity securities: -
 - (a) In connection with a rights issue in favour of the shareholders where the equity securities respectively attributable to the interests of all shareholders are proportionate (as nearly as may be) to the respective number of Ordinary Shares held by them, but subject to such exclusions and other arrangements that the Directors may deem necessary to deal with legal or practical problems in respect of overseas holders, fractional entitlements or otherwise;
 - (b) (otherwise than pursuant to sub – paragraph (a) above) up to an aggregate nominal amount of £1,181,389 representing 20% of the issued share capital of the company.

And such authority shall expire on the date of the next Annual General Meeting of the company or on 30th October 2005 (whichever is earlier) so that the company may before such an expiry make an offer or agreement which would or might require the Directors to allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

- 8) To transact any other business of an Annual General Meeting.

Registered Office:
7 Tanners Yard
London Road
Bagshot,
Surrey,
GU19 5HD

BY ORDER OF THE BOARD
P. F. Wynter Bee
Secretary

21st June 2004

Notes:

Any member entitled to attend and vote may appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the company. A form of proxy is enclosed for the use of the members who are unable to attend the meeting and, to be effective, must be lodged at the company's Registered Office, 7 Tanners Yard, London Road, Bagshot, Surrey, GU29 5HD not less than forty-eight hours before the start of the meeting.

There will be available for inspection at the registered office of the company, during usual business hours on any weekday (Saturdays and Public holidays excepted) from the date of this notice until the date of the Meeting, and at the place of the Meeting for 15 minutes prior to and during the Meeting copies of all service agreements of any Directors with the company which are not expiring and determinable by the company, without payment of compensation within one year, and particulars for the period up to 11th June 2004 of the transactions of each Director and, so far as he can reasonably ascertain, of those connected persons within the meaning of Section 346 of the Companies Act 1985, in the share capital of the company.

Pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, the Company specifies that only those shareholders of the Company on the register on 28th July 2004 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at the time. Changes to the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.



ZincOx Resources plc

7 Tanners Yard
London Road
Bagshot
Surrey GU19 5HD
T (44) 1276 455700
F (44) 1276 850015