

Big River Zinc Smelter Acquisition Agreement Signed

- **£8.1 million acquisition of Big River Zinc smelter, Illinois, USA**
- **Third largest zinc smelter in the United States**
- **Plant to recycle zinc from steel industry waste (EAFD)**
- **Initial plan to produce 30,000 tonnes zinc metal per annum**

ZincOx Resources plc (“ZincOx”, ticker ZOX), has agreed to acquire Big River Zinc Corporation (“BRZC”) for a total consideration of £8.1 million. BRZC’s principal asset is the 100,000 tonnes per annum Big River Zinc “smelter” (electrolytic-refinery) in Sauget, Illinois.

ZincOx intends to modify the treatment process at the Big River Zinc smelter (BRZ) so that it can use zinc bearing steel industry waste (EAFD) as a feedstock, as well as conventional mined sulphide concentrates. The BRZ project will replace the Mid-West Recycling Project previously planned to lead ZincOx’s recycling strategy in North America. A feasibility study for the redevelopment of BRZ is already underway.

Commenting on the announcement, Andrew Woollett, ZincOx’s Chairman, said “The acquisition of BRZI presents a unique opportunity to establish us rapidly and cost effectively in the USA. BRZ’s location adjacent to St Louis on the Mississippi river, makes it ideally suited as a central North American recycling facility.”

BRZ is the third largest zinc smelter in the United States. The plant employs a simple roast - single leach – electrowinning – melting and casting flowsheet, to recover metal of SHG quality. In addition, BRZ sold zinc powder suitable for the production of alkaline batteries, a significant value added product.

BRZ was purchased by Korea Zinc Co., Ltd in 1996 for about US\$50 million, since then over US\$80 million has been spent on upgrading the plant. This has included a complete refurbishment of the roasters and partial automation of the electrowinning facilities. Over the past 50 years there has been a steady decline in mining activities in the continental United States and conventional zinc concentrates are now only produced as a by-product from lead mining operations. Consequently, BRZ has had to source zinc concentrates from outside the United States. Given the recovery constraints set by the simple flowsheet at BRZ, in the latter half of 2005 it was not possible to obtain concentrates of the necessary quality at an acceptable price and Korea Zinc decided to close the plant.

The future BRZ recycling operation will require the construction of a new leach and purification plant. This plant will be essentially the same as that successfully designed by the ZincOx management team, when at Reunion Mining PLC, for the Skorpion electrolytic zinc refinery, in Namibia. Zinc metal will be recovered using BRZ’s existing electrolytic cellhouse, melting and casting facilities, thereby saving considerable capital cost when compared to a new green field facility.

Initially BRZ will produce about 30,000 tonnes of zinc metal per annum. When suitable zinc sulphide concentrates can be sourced, however, this will be expanded significantly by re-starting the existing conventional roast-leach operation in parallel with the new EAFD based plant.

EAFD is a product of recycling steel in electric arc furnaces, from which the USA derives about 50% of its steel and which generates over 800,000 tonnes of EAFD per annum. Due to the galvanised nature of much of the scrap, the EAFD typically contains between 15% and 25% zinc. EAFD will be supplied to the new BRZ plant under an agreement with EnviroSafe Services of Ohio Inc (ESOI) with which ZincOx has a strategic alliance in North America. Under the terms of this agreement, ESOI will source and transport EAFD to BRZ and will be responsible for residue stabilisation and disposal, at no cost to BRZ.

The vast majority of the world's zinc is produced in smelters that use sulphide concentrate as a feed material. The cost of the feed is linked to the price of zinc, the higher the zinc price the more costly the concentrate feed. Zinc concentrate typically amounts to over 60% of the total cost of zinc production. The new EAFD based operation envisaged for BRZ will not have a cost of feed linked to the zinc price and this should enhance operating margins, especially at higher zinc prices.

In order to facilitate a rapid start up for the new operation and to assist with the development, certain key members of BRZC's staff have been reemployed by ZincOx.

BRZ is located in the centre of the USA with excellent road and rail links and close to the Mississippi river. As such it is close to and easily accessible by both the suppliers of EAFD - the steel mills - and zinc customers.

Commenting further, Andrew Woollett said "BRZ offers considerable benefits when compared to an entirely new operation, such as the experienced management team, the reduced capital requirement due to the use of much of the existing plant and infrastructure, environmental permitting, the existence of established markets and the potential for value added products".

The total cost of acquiring BRZ amounts to £8.1 million of which £0.9 million is consideration for BRZC itself, £4.8 million in consideration of bonds outstanding to Korea Zinc, and £2.4 million by way of the provision of a guarantee in respect of workers compensation insurance. The last figure is expected to diminish significantly over the next 18 months, thereby releasing cash back to ZincOx. The acquisition is subject to various conditions that are expected to be satisfied by the end of June. Whilst ZincOx has sufficient cash resources to cover the total consideration for BRZC, the Directors are evaluating various funding options for the provision of funding specific to this transaction.

The redevelopment will be planned to be undertaken as rapidly as possible, with production targeted for commencement before the end of 2007. To this end, work on the project has been gaining momentum over the past three months. The Illinois Department of Commerce and Economic Opportunity has already agreed a package of investment support worth over US\$2 million comprising tax credits and training

grants and a site survey has also been completed. A cost estimate and feasibility study suitable for project finance is expected to be completed in the third quarter of this year.

The planned conversion of the plant will not prevent the resumption of conventional zinc production when reasonably priced zinc concentrates can be sourced on long term contracts. This will give the advantages of economies of scale by sharing fixed costs in a way that would not be possible at a new green field site unequipped to treat sulphide concentrates.

Andrew Woollett, said “The BRZ acquisition is a major leap forward for the company and accelerates our plans to become a major player in the zinc business”.

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