



Avocet Mining



Avocet Mining PLC

Interim Report 30 September 2003

Highlights

	6 months to 30 September 2003	6 months to 30 September 2002	Variance	Year to 31 March 2003
	£'000	£'000		£'000
Turnover	21,386	12,089	+77%	31,377
Operating cash flow	6,418	1,811	+254%	6,383
Gross profit	4,437	2,163	+105%	4,387
Pre-tax profit	3,460	1,147	+202%	2,357
Earnings per share	2.98p	1.24p	+140%	1.96p
Average spot gold price (US\$/oz)	355	313	+13%	291
Gold production (ozs)	90,410	54,380	+66%	107,340
Average total cash cost (US\$/oz)	237	212	+12%	225

- Pre-tax profit increased by 202% to £3.5 million (US\$5.6 million)
- Earnings per share up 140% to 2.98p
- Operating cash flow increased by 254% to £6.4 million
- Gold production up 66% to 90,410 ozs
- North Lanut gold project on track for 2004 production
- Total debt to net worth reduced from 126% to 24%

Tajikistan – **Zeravshan JV**

Malaysia – **Penjom**

Indonesia – **North Lanut**



This is the first reporting period for which the financial results of Avocet Mining reflect its gold business only and which are no longer burdened by an unprofitable tungsten business. Notable achievements were:

- Strong operating cash flows from the Penjom mine in Malaysia, which achieved a record level of gold production;
- A full period of additional gold production from last year's acquisition of the Zeravshan Gold Company (ZGC) in Tajikistan;
- Placing of £10 million, sufficient to fund an accelerated development of the North Lanut project in Indonesia;
- Divesture of ownership and operating control of tungsten operations;
- Record earnings and operating cash flow, and substantially improved liquidity.

Financial Results

For the six months ended 30 September 2003 turnover was £21.4 million (2002: £12.1 million). Total gold sales were 93,050 ozs (2002: 50,600 ozs), all of which were achieved at spot prices averaging US\$358/oz (2002: US\$313/oz).

Gross profit increased to £4.4 million (2002: £2.2 million) giving a gross margin for the period of 21% (2002: 18%). The 100% improvement in gross profit was largely as a result of higher gold prices, the elimination of tungsten losses and additional gold production from ZGC. Penjom's cost of gold sold was US\$254/oz (2002: US\$208/oz). This cost included depreciation of US\$38/oz (2002: US\$30/oz) and an additional charge of US\$14/oz (2002: US\$34/oz credit) representing waste stripping costs that were deferred last year but are now being amortised over the mine's life. ZGC's cost of gold sold was US\$335/oz inclusive of US\$18/oz of depreciation.

Penjom Gold Mine, Malaysia

Operating highlights

	6 months to 30 September 2003	6 months to 30 September 2002	Year to 31 March 2003
Production statistics:			
Tonnes mined	7,653,800	7,986,000	14,397,000
Waste: Ore ratio	18	26	23
Tonnes processed	271,600	257,000	523,600
Grade processed (g/t)	7.99	7.50	7.28
Recovery rate (%)	89	88	89
Gold produced (ozs)	62,300	54,380	108,905
Cash operating costs (US\$/oz):			
Mining	113	131	120
Processing	56	51	52
Admin. & royalties	31	30	32
Total cash costs	200	212	204

Pre-tax profit increased over 200% to £3.5 million (2002: £1.1 million). Despite the increased scope of the Group's business, administrative costs were cut by 11% to £0.6 million (2002: £0.7 million). Net interest costs were almost unchanged at £0.4 million.

The Group made an after-tax profit of £2.5 million, a 218% increase on the £0.8 million earned for the same period in 2002. As a result, basic earnings per share improved by 140% to 2.98p.

Operating cash flow increased 254% to £6.4 million (2002: £1.8 million). Uses of operating cash flow included: net interest and tax payments of £0.7 million (2002: £0.3 million); a reduction in net borrowings of £2.3 million (2002: £0.3 million); and investments in fixed assets and exploration totalling £2.4 million (2002: £0.8 million). With £9.7 million in net proceeds from the September 2003 equity placing, the Group's net cash inflow increased substantially to £10.6 million. The placing allowed the Group to fast track the North Lanut project while avoiding the need to raise loan finance to fund the project and the consequential need to hedge. The Group does maintain a hedging position of 80,000 ozs in order to satisfy a banking covenant. This position would realise a current gold price of approximately US\$300/oz, which escalates in line with the gold lease rate. Deliveries are deferrable until at least 2006 and amount to less than 2% of the Group's gold resources, as reported for 31 March 2003.

As a result of a strong financial performance, the Group's liquidity position at 30 September 2003 was greatly improved. Total debt was reduced to £5.4 million (2002: £9.5 million) versus increases in net current assets to £16.0 million (2002: £4.2 million) including cash of £14.1 million (2002: £2.5 million).

Chairman's Statement

The Penjom mine increased first half gold production by 15% to a new record of 62,300 ozs as ore grades yet again exceeded predicted levels. Gold production would have been even higher and cash costs lower if not for a slowdown in mill throughput in the first quarter due to the delayed installation of both a secondary ball mill and improved resin process systems. Recent results indicate

that a process production rate of 50,000 tonnes of ore per month is now feasible. The main factor contributing to the 6% overall decrease in total cash costs was a reduction in Penjom's waste-to-ore stripping ratio, which is expected to continue with respect to ore reserves contained within the mine's current open pit limits.

Zeravshan Gold Company, Tajikistan

Operating highlights

	6 months to 30 September 2003	5 months to 31 March 2003*
Production Statistics:		
Tonnes mined	3,479,400	2,682,000
Waste: Ore ratio	5.2	2.7
Tonnes processed	834,300	720,030
Grade processed (g/t)	1.16	1.22
Recovery rate (%)	90	89
Gold produced (ozs)	28,110	25,675
Cash operating costs (US\$/oz):		
Mining	117	106
Processing	108	93
Admin. & royalties	92	85
Total cash costs	317	284

*Avocet took over operating control in November 2002

ZGC's average monthly gold production for the first half of the year was 9% below that achieved for the prior period, following Avocet's acquisition, and was well below the operation's historical performance. The principal reasons were the cumulative effect of a lack of investment by the previous operator in exploration for mine planning purposes and in mill maintenance. The former has limited the availability of open pit ore in terms of both tonnage and grade. The latter resulted in a shut-down of the primary crusher and reduced availability of the plant's SAG mills such that total plant throughput was 7% below rated capacity. The primary crusher has now been refurbished and supplemented with an auxiliary crusher. A comprehensive plant maintenance programme has also been initiated.

Good progress was made towards further enhancing ZGC's performance. The first pilot testing of a dump leach operation on low grade ores was successfully completed. Results on the leaching of 12,600 tonnes of ore grading 0.57 g/t gave a recovery rate of 75.5% at a total cash cost calculated at less than \$200/oz. A larger test for the treatment of 310,000 tonnes of ore has been initiated. Underground production at a targeted rate of up to 1,000 tonnes per day of ore grading approximately 2.5 g/t from the area below the Jilau Main open pit is ahead

of schedule. The availability to the plant of higher grade ore from underground plus supplementary production from dump leaching should lower unit costs and increase gold production and the life of the operations.

Negotiations with the Tajikistan Government concerning a swap of shareholder loans owed to Avocet for certain benefits, including an increase in Avocet's shareholding to above 49%, are ongoing. Recent meetings with the Prime Minister and senior government officials were positive and we expect to reach an agreement in due course.

North Lanut, Indonesia

Following the completion of a positive feasibility study for the Riska deposit at North Lanut and the completion of the September 2003 private placing, the project has been fast tracked for development. All required approvals have now been received from the various state and federal government agencies, and the project is progressing on schedule and within budget. Production at an average rate of over 50,000 ozs of gold per year and a total cash cost well below US\$200/oz remains our goal.

Exploration

Avocet has budgeted US\$3.8 million for exploration related costs for this fiscal year. Its objectives are to add to the Group's ore resources and to convert a material portion of these resources to ore reserves reportable under acceptable western standards.

Exploration at Penjom has focused on near surface mineralisation along strike from the Penjom mine and on evaluating the potential for underground reserves. Progress has been set back by delays in obtaining foreign worker and equipment import permits. Nevertheless, the new exploration adit from Penjom's main pit began with unexpected high grade intercepts, while results from drilling elsewhere are sufficiently advanced to indicate that at least one of our twelve open pit targets contains a relatively significant ore resource. These results are being assessed and will be announced by the Company in due course.

Elsewhere in Malaysia, initial work to test the Sungai Luit gold property has been sufficiently encouraging for further work to be undertaken. In addition, we are revisiting the Buffalo Reef prospect, near Penjom, which was largely written off three years ago, while initiating negotiations on two other properties located within the historic gold belt of Peninsular Malaysia.

In Tajikistan, the Company has purchased a modern RC drilling rig to accelerate exploration within the area of ZGC's existing operations, and to supplement geological mapping and trenching. Several promising areas within one kilometre of current haul roads have been identified. Proving up these potential resources has been temporarily prioritised over exploration of ZGC's other gold deposits within its area of interest. This covers 3,000 sq kms where past Soviet exploration has identified almost 13 million ounces within Russian C and P categories. These include two partially developed underground mines, Taror and Chore, which contain at least 2.8 million ounces of resources and are under separate evaluation for future development.

Exploration activities in Indonesia were mostly put on hold as the focus remained on getting the North Lanut project under construction and into operation. Nevertheless, an opportunity remains to upgrade North Lanut's reserve base. New property acquisitions nearby and elsewhere in Indonesia are also the subject of serious negotiation.

Outlook

Avocet's strong operating and financial results have progressed the Company's goal of 300,000 ozs of annual gold production by 2006. Given that this objective was only reliant on the development of properties already acquired, it is conceivable that Avocet's production objective will be exceeded as new opportunities are exploited.

Penjom continues to exceed expectations and production for the year should now exceed 110,000 ozs for the first time. Mining cash costs should continue to decline as the high grade areas currently being mined look set to continue for at least the short term. The plant continues to become more efficient and the mine is moving less waste. As a result the second half of the year should see lower unit cash costs. Historically, Penjom has more than replaced its production with ore reserves. We have recognised that this cannot continue indefinitely without a far more substantial exploration effort. This has started and preliminary results show the mine's economic life should be extended.

The short-term challenge with respect to ZGC remains one of increasing gold production to over 100,000 ozs/year and decreasing costs to below US\$250/oz. Meeting this challenge will require new investment incentives from the Tajikistan Government and production improvements enhanced by lower cost underground mining and dump leaching, all of which we believe are achievable. Ultimately, ZGC and its property position hold the greatest long term potential for the Company.

We expect that by fiscal year-end North Lanut will be in the latter stages of development and we will be able to give a more realistic estimate of when we expect the first gold to be poured. This is scheduled for the second half of 2004.

I know that Avocet's shareholders will wish to join me in thanking all the employees of the Group for a job very well done in bringing the Company to a healthy position with a truly exciting future.



Nigel McNair Scott
26 November 2003

Independent Review Report to Avocet Mining PLC

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 September 2003 which comprises the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Other Primary Statements and the related notes 1 to 4. We have read the other information contained in the interim report which comprises only the Chairman's Statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have

been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2003.

Grant Thornton
Chartered Accountants
London

26 November 2003

Consolidated Profit and Loss Account

	note	6 months to 30 September 2003 Unaudited	6 months to 30 September 2002 Unaudited	Year to 31 March 2003 Audited
		£000	£000	£000
Turnover				
Continuing operations		20,498	10,395	27,341
Discontinued operations		888	1,694	4,036
		21,386	12,089	31,377
Cost of sales		(16,949)	(9,926)	(26,990)
Gross profit		4,437	2,163	4,387
Administrative expenses		(602)	(674)	(1,539)
Operating profit				
Continuing operations		3,840	1,595	3,552
Discontinued operations		(5)	(106)	(704)
Operating profit		3,835	1,489	2,848
Net interest and similar charges		(375)	(342)	(491)
Profit on ordinary activities before taxation		3,460	1,147	2,357
Tax on profit on ordinary activities		(955)	(360)	(1,080)
Profit on ordinary activities after taxation		2,505	787	1,277
Equity minority interest		(94)	27	117
Profit for the financial period retained		2,411	814	1,394
Basic earnings per share	1	2.98p	1.24p	1.96p
Diluted earnings per share	1	2.85p	1.24p	1.89p

Consolidated Balance Sheet

	6 months to 30 September 2003 Unaudited £000	6 months to 30 September 2002 Unaudited £000	Year to 31 March 2003 Audited £000
Fixed assets			
Intangible - deferred exploration costs	3,106	924	1,618
Tangible assets	12,303	11,376	13,736
Investments	280	–	280
	15,689	12,300	15,634
Current assets			
Stocks	6,979	5,500	8,880
Debtors due within one year	644	749	1,016
Debtors due after more than one year	3,017	3,728	3,571
Cash at bank and in hand	14,134	2,526	3,822
	24,774	12,503	17,289
Creditors: amounts falling due in less than one year	(8,747)	(8,325)	(12,958)
Net current assets	16,027	4,178	4,331
Total assets less current liabilities	31,716	16,478	19,965
Creditors: amounts falling due after more than one year	(3,823)	(6,818)	(4,524)
Provision for liabilities and charges	(2,183)	(2,305)	(2,216)
	25,710	7,355	13,225
Capital and reserves			
Called up share capital	25,899	16,424	19,924
Share premium account	27,301	23,600	23,600
Other reserves	11,330	12,590	11,330
Profit and loss account	(41,581)	(45,078)	(44,296)
Equity shareholders' funds	22,949	7,536	10,558
Equity minority interests	2,761	(181)	2,667
	25,710	7,355	13,225

Consolidated Cash Flow Statement



	6 months to 30 September 2003 Unaudited	6 months to 30 September 2002 Unaudited	Year to 31 March 2003 Audited
	£000	£000	£000
Net cash inflow from operating activities	6,418	1,811	6,383
Returns on investment and servicing of finance			
Interest received	11	15	29
Interest paid	(232)	(270)	(539)
Net cash outflow from returns on investment and servicing of finance	(221)	(255)	(510)
Taxation	(466)	(9)	(579)
Capital expenditure and financial investment			
Purchase of fixed assets	(863)	(694)	(1,757)
Deferred exploration costs	(1,558)	(113)	(794)
Purchase of investments	–	–	(280)
Net cash outflow from capital expenditure and financial investment	(2,421)	(807)	(2,831)
Acquisitions and disposals			
Purchase of subsidiary undertakings	–	–	(764)
Net cash from (disposal)/purchase of subsidiary undertakings	(83)	–	245
Net cash outflow from acquisitions and disposals	(83)	–	(519)
Financing			
Proceeds from issue of ordinary shares	10,217	–	–
Costs of issue of ordinary shares	(541)	–	–
Repayment of borrowings	(2,150)	(170)	(99)
Capital repayments on finance leases	(109)	(120)	(238)
Net cash inflow/(outflow) from financing	7,417	(290)	(337)
Increase in cash	10,644	450	1,607

Other Primary Statements

	6 months to 30 September 2003 Unaudited £000	6 months to 30 September 2002 Unaudited £000	Year to 31 March 2003 Audited £000
Statement of total recognised gains and losses			
Profit attributable to shareholders	2,411	814	1,394
Exchange translation adjustments	304	634	836
Total recognised gains and losses	2,715	1,448	2,230
Reconciliation of movements in Group shareholders' funds			
Total recognised gains and losses	2,715	1,448	2,230
New capital subscribed (net of costs)	9,676	–	3,500
Acquisition reserve	–	–	(1,260)
Net change in shareholders' funds	12,391	1,448	4,470
Opening shareholders' funds	10,558	6,088	6,088
Closing shareholders' funds	22,949	7,536	10,558

Notes:

- 1 The calculation of earnings per share is based on after-tax profits of £2,411,000 (2002: £814,000) and on the weighted average number of 81,009,717 shares in issue (2002: 65,696,530).

The fully diluted calculation of earnings per share is based on after-tax profits of £2,411,000 (2002: £814,000) and on the weighted average number of shares in issue and exercisable under share options of 84,609,717 (2002: 65,696,530).

- 2 The interim financial information complies with the relevant financial reporting standards and the accounting policies are applied on a basis consistent with those applied in the annual financial statements, except as stated below.
- 3 The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the year ended 31 March 2003 is an abridged version of the full accounts, which received an unqualified auditors' report and have been filed with the Registrar of Companies.
- 4 This statement is being sent to Shareholders and will be available from the Company's Registered Office.

Directors and Advisers

Executive Directors

J T Catchpole Chief Executive Officer

J G Henry Finance Director

J G Oelofse Chief Operating Officer

Non-Executive Directors

N G McNair Scott Chairman

Sir Richard Brooke Bt.

J F Newman

R A Pilkington

J D Pollock

Secretary and Registered Office

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