



**BAOBAB**  
**RESOURCES**

**Baobab Resources plc**

*Company Number 5590467*

**ANNUAL REPORT**

**30 JUNE 2008**



**Corporate Information**  
**Directors**

**Jeremy Dowler**  
Non Executive Chairman  
**Brett Townsend**  
Acting Managing Director  
**Ben James**  
Technical Director  
**Jonathan Beardsworth**  
Non Executive Director

**Joint Company Secretary**

**Cargill Management Services Limited**  
27/28 Eastcastle Street  
London W1W 8DH  
UK

**Joint Company Secretary**

**Ms Susan Hunter**  
Norvest Corporate Pty Ltd  
Ground Floor  
16 Ord Street  
West Perth WA 6005  
Australia

**Registered Office**

27/28 Eastcastle Street  
London W1W 8DH  
UK

**Principal place of business**

49 Phillimore Street  
Fremantle WA 6160  
Australia

**Solicitors**

**Watson Farley & Williams**  
15 Appold Street  
London EC2A 2HB  
UK

**Auditors**

**Grant Thornton UK LLP**  
The Explorer Building  
Fleming Way  
Manor Royal  
Crawley RH10 9GT  
UK

**Nominated Advisor**

**Grant Thornton UK LLP**  
30 Finsbury Square  
London EC2P 2YU  
UK

**Broker**

**Fox-Davies Capital Limited**  
1st Floor, Whitefrairs House  
6 Carmelite Street  
London EC4Y 0BS  
UK



## **CHAIRMAN'S STATEMENT**

Baobab Resources plc ("Baobab" or "the Company") has made significant progress during the year in Mozambique, highlights being the completion of a Stage 1 Mineral Resource Estimate for the Company's flagship Mundonguara Project and more recently the Phase 1 results from metallurgical testwork carried out on the Tete Iron Ore Project.

The Mundonguara Project is wholly owned by Baobab through its Mozambique subsidiary Capitol Resources Lda. The initial resource estimate for Mundonguara confirms our belief that the project area has the potential to host significant mineralisation. Internationally respected consultant, Coffey Mining Ltd, was commissioned to substantiate this resource estimate based on results from surface and underground drilling and channel sampling completed by the Company. The Stage 1 JORC Inferred Mineral Resource is 3.1 million tonnes at 1.4% Cu, 0.11g/t Au and 2.1 g/t Ag utilising a 0.3% Cu lower cut-off grade extending to a maximum depth of 200m below existing development.

The resource envelope covers only a fraction of the prospective geology and our future exploration campaigns will target the depth extensions to the mine itself and the along strike potential of the Mundonguara System. The resource estimate contributed to an exciting year for Baobab and its shareholders and the Company looks forward to progressing the project from this solid base when funding becomes available by way of joint venture or equity subscription in the future.

Within the Tete Iron Ore Project, we believe the results of an interpretation of a portion of the aeromagnetic survey covering the Massamba Group vanadiferous titanomagnetite prospects significantly upgrade the potential of the area to host large tonnages of ore. High resolution geophysics indicate near surface, steeply dipping, highly magnetic bodies ranging in width from 50 metres to 450 metres over strike lengths of 2.5kms to 3.5kms. Findings of the recent field verification programme have reinforced the fact that this highly prospective terrain has experienced limited previous economic exploration thereby presenting the opportunity for making major new discoveries.

Stage 1 beneficiation test work using low intensity magnetic separation (LIMS) has produced a high mass yield concentrate assaying 56% iron and 0.7% vanadium oxide. A drilling programme, in early 2009, is warranted in order to define the titanomagnetite resources of the Massamba Group.



In December 2007 the Company announced the first tranche of a placing of 9,970,000 ordinary shares at a price of 11.5p, raising £1,146,550 before expenses. Shortly afterwards in January 2008 the Company announced the second tranche of a further 6,289,000 ordinary shares at a price of 11.5p, raising £723,235 before expenses.

The combined tranches total 16,259,000 ordinary shares and raised £1,869,785 for the Company before expenses.

The funds raised have been utilised in the ongoing development of the Mundonguara Project, Tete Iron Ore Project and other exploration activities on our existing portfolio in Mozambique.

On 27 November 2008, the Company completed a share placing of 20 million ordinary shares at 2.5p per share raising £500,000 before expenses.

The Company also announced that it has entered into an equity subscription agreement and option agreement with the International Finance Corporation (“IFC”). Under these agreements, IFC have agreed to subscribe for 11,000,000 Ordinary Shares at 4.1p per share to raise £451,000 before expenses. The IFC has been granted 7,333,333 options over the Company’s Ordinary Shares that are exercisable at 6.15p up to 27 November 2015.

The Company has also announced a proposed joint venture agreement with IFC in relation to the Company's vanadiferous titano-magnetite projects at Tete.

Under the proposed agreement, IFC will acquire a 15% interest in the Tete project for US\$400,000, and will also contribute pro-rata to the 2009 exploration budget of the Tete project by spending an additional US\$330,000.

Funds raised will be used by the Company for its exploration budget for 2009, focusing in particular on the Company's drilling program at the highly prospective Massamba vanadiferous titano-magnetite deposit at Tete, and to provide ongoing working capital for the Company.



During April 2008 Mr Ian Cullen resigned from the Board of Directors and Mr Tony Walsh resigned from the Board in November 2008. We thank Mr Cullen and Mr Walsh for their contributions.

In April 2008, Mr Brett Townsend, an Executive Director of the Company, was appointed Acting Managing Director and Mr Ben James, the Company's Exploration Manager, was promoted to Technical Director of the Company. Mr James is a senior geologist with over ten years experience in the resources industry.

Also during the year, Mr Jack Penkin was appointed as Chief Financial Officer for Baobab and its subsidiary companies. Mr Penkin is a Chartered Accountant and a Company Chartered Secretary with over 20 years of experience in senior accounting and finance roles in a variety of industries in South Africa, UK and Australia.

We thank all of our employees throughout the year and especially the dedicated workforce in Mozambique for their continued hard work and commitment. We also thank our shareholders for their constant support and patience in these turbulent markets. We firmly believe that Baobab is poised for further exploration success in 2009.

A handwritten signature in black ink, appearing to read "Jeremy Dowler", is positioned above the printed name of the Chairman.

**Jeremy Dowler**  
**Chairman**



## **PROJECT OVERVIEW**

### **Mundonguara Project**

Over the last 12 months the Company has completed 3,596m of underground diamond drilling, 1,748m of surface reverse circulation (RC) drilling and 1,838m of underground channel sampling at the Mundonguara mine.

Analysis and interpretation of the data by Coffey Mining Pty Ltd resulted in the reporting of a JORC Inferred Mineral Resource Estimate on the 1km long Mine portion of the Mundonguara Project of 3.1Mt @ 1.4% copper, 0.11g/t gold and 2.1g/t silver using a 0.3% Cu lower cutoff grade extending to a maximum depth of 200m below existing development.

This resource estimate in conjunction with a soil geochemical survey, geophysical interpretation, trenching and RC drilling results indicate that the Mundonguara System is significantly larger than previously recognized, with mineralization remaining open at depth and along strike.

Potential for significant tonnages of ore exists in three areas:

- Down plunge extensions of exploited ore zones within the mine where drilling has confirmed their continuity
- Western strike extension of the System for an additional +1.5km
- Structurally off-set continuations of the mine sequence approximately 2.5km to the northeast where MMI soil geochemical sampling has identified copper anomalies of a similar tenor as those overlying the mine. These continuations represent a further 1.5km of strike potential.

The results from MMI soil geochemistry survey completed at Mundonguara has shown copper-in-soil anomalies confirming a mineralized strike length of 3km open ended to the west.

The strike potential to the west and east of the mine is robust and has received little attention in the past. The Seymour Prospect lies approximately 1km along strike to the west of the mine and is intruded by a deeply weathered and altered felsic body hosting both disseminated and stockwork style copper and gold mineralisation. The historic Seymour workings themselves appear to have been sunk on a massive sulphide vein immediately south of the intrusive. Additional mineralized intrusives have been identified 500m further to west again of the Seymour Prospect.

The Company's on-going exploration programme has included surface trenching and RC drilling at the Seymour prospect. Over the intrusive, trenching returned intersections of up to 20m grading 3.7% copper and 0.82 g/t gold from MTR001. These grades were confirmed by the RC drilling which returned best intercepts of 17m grading 2.1% copper from 13m in MRC032 and 3m grading 9.59 g/t gold from 103m in MRC031.



Aeromagnetics identified structurally off-set continuations of the mine sequence approximately 2.5km to the northeast and MMI soil geochemical sampling in this area has identified copper anomalies of a similar tenor as those overlying the mine, indicating that mineralization persists through this area.

Australian based geophysical contractor, Search Exploration Services, has completed a detailed dipole-dipole induced polarity (IP) survey over the mine and along its strike continuations to the west and northeast. The results from the survey, coupled with the completed soil geochemistry, will assist in the precise targeting of the next phase of drilling.

A comprehensive drilling campaign is designed to further expand the resources of the Mundonguara System.

The Mundonguara mine is within 2km of the international railway and 5km of the highway, linking the project with the port of Beira. The power lines from the Cahora Bassa hydroelectric power scheme pass within 40km of the mine.

Baobab is very pleased with the outcome of the first of its resource estimates for Mundonguara which confirms its belief that the System can host significant mineralization. The resource envelope covers only a fraction of the prospective geology and future exploration campaigns will be targeting the depth extensions to the mine itself and the along strike potential as further funding becomes available to the Company.

### **Tete Project**

The exploration of the Tete vanadiferous titano-magnetite deposits carried out this year have elevated this to the status of a lead project for the Company along with Mundonguara.

The Tete Licences contain 5 known vanadiferous titano-magnetite deposits: Singore, located approximately 30km due north of the city of Tete; and the cluster of prospects known collectively as the Massamba Group, located 55km north-northeast of Tete.

Initial rock chip sampling from Massamba Group indicated significant ore potential with results returning average grades of 49% Fe, 21% TiO<sub>2</sub> and 0.3% V.

Subsequently an aeromagnetic/radiometric survey was flown with an interpretation of the survey area covering the Massamba Group of prospects revealing highly encouraging results:

- Geophysical modeling of these magnetic anomalies indicates that the magnetite bodies are sub-vertical, varying in width from 50m to 450m and continuous over strike lengths of up to 3.5km, with a combined strike length in excess of 8km.
- The modeled depth to the top of the magnetic anomalies is generally shallow (0 to 50m).
- The geophysical data supports the interpretation of a large tonnage of titano-magnetite in the Massamba area.



Three 100kg bulk samples of the vaniferous titano-magnetite were collected from outcrops at the Caangua and Chitongue Pequeno prospects of the Massamba Group and dispatched to AMMTEC laboratories in Perth, Western Australia. Mineral Engineering Technical Services (METS) was commissioned to manage test work to determine the metallurgical characteristics of the vaniferous titano-magnetite and to define methods of producing a saleable concentrate. Metallurgical test work completed is described below:

- Stage 1 beneficiation test work at a 106 $\mu$ m grind and 800 Gauss low intensity magnetic separation (LIMS) has produced a high mass yield concentrate assaying 56% iron and 0.7% V<sub>2</sub>O<sub>5</sub>.
- Low concentrate grades of titanium (<9%), silica (0.5%) and other deleterious elements resulted
- Non-magnetic residue containing 22% titanium may be a marketable byproduct

The analytical results of the Stage 1 beneficiation work programme are very encouraging with the iron content upgraded from a calculated head grade of 49% to 56% at 800 Gauss, representing a 78% total recovery. Vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>) was also significantly upgraded from a head grade of 0.55% to 0.72%, representing a 90% recovery. Titanium, silica and alumina (deleterious components of a concentrate) returned low grades at 800 Gauss. Phosphorus analysis is pending although it is not expected to be more than 0.1%.

The ore beneficiation results are very exciting. A strike length in excess of 8 kms of magnetite bodies has been interpreted from geophysical anomalies in the Massamba group. A drilling program is now warranted to define the titano-magnetite resources of the Massamba area which has the potential to host very large tonnages of ore amenable to producing a saleable iron concentrate.

Drilling is planned to confirm the extent of mineralization in the Massamba area as indicated by the recent aeromagnetic interpretations and field mapping

Tete is fast becoming a major investment centre with mining majors Vale and Riversdale in the process of opening up the Moatize and Benga coal fields. The railway connecting Tete to the deep water port of Beira is being refurbished, as is the port. Power is readily available from the Cahora Bassa hydroelectric scheme with additional schemes on the Zambezi in advanced planning stages.

Considering all factors The Tete Project has fast risen up as a lead project for Baobab of high potential meriting drilling definition in the coming year.

### **Greenfields Projects**

Baobab's four greenfields projects will be moving forward this year facilitated by comprehensive sampling programmes carried out by the Mozambican exploration team. Currently the Changara Project which is targeting Broken Hill type polymetallic base and precious metal mineralization is undergoing an extensive soil geochemical survey.



## **Outlook**

Mozambique is an exciting country to be exploring in with prolific natural resources potential and the Company remains focused on developing its assets there. This year has been one of exploration achievement with the two lead projects moving forward with very positive results achieved.

Funding secured in November 2008 in conjunction with the expected ratification of a proposed joint venture with IFC will enable the Company to implement its initial Tete drilling program in 2009 and we look forward to significant Tete Project enhancement as a result.

Given the current market conditions the coming year will pose its challenges, however Baobab has a suite of excellent projects and is confident that it will move them forward by way of further institutional support and joint venture initiatives.



**Brett Townsend**  
**Acting Managing Director**



## **DIRECTORS' REPORT**

The Directors present their report and financial statements for the year ended 30 June 2008.

### **Principal activity**

During the financial year the principal activity of the Company was the investigation and analysis of geological opportunities in Mozambique.

Baobab Resources plc has four 100% owned subsidiary companies.

*Maputo Minerals Limited (Registered in the British Virgin Islands)*

*Mocambique Resources Limited (Registered in the British Virgin Islands)*

*Capitol Resources Lda (Registered in Mozambique)*

*Baobab Mining Services Pty Ltd (Registered in Australia)*

Baobab Resources plc owns all the shares in Maputo Minerals Limited which owns 50% of the shares in Capitol Resources Lda.

Maputo Minerals Limited owns all the shares in Mozambique Resources Limited which owns 50% of the shares in Capitol Resources Lda. Capitol Resources Lda holds a 100% interest in 25 Mozambique prospecting licenses. Baobab Resources Plc owns all the shares in Baobab Mining Services Pty Ltd which is providing management services for the exploration program in Mozambique.

During the year the Company has further developed the areas of interest under these licenses.

### **Results and dividends**

The loss for the year ended 30 June 2008 after income tax was £2,190,573 (2007 - £1,550,663).

No dividends have been paid during the year and the Directors cannot recommend that any dividend be paid.

### **Business review**

A review of the business is contained in the Chairman's statement and the Project Overview.



## **Financial risk management objectives and policies**

The Company uses various financial instruments these include cash, and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations. The existence of these financial instruments exposes the Company to financial risks, which are described in more detail below. To date the Company has not had significant financial risks for the Directors to use hedging or other financial risk minimising transactions.

The main risks arising from the Company's financial instruments are market risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

### **Market risk**

Market risks affecting the Company are currency risk and interest rate risk. In the Company's operations to date, currency risk is the more significant risk to which the Company has been exposed.

### **Currency risk**

The Company is exposed to translation and transaction foreign exchange risk. In relation to translation risk, as far as possible the assets held in the foreign currency will be matched to an appropriate level of borrowings in the same currency. Transaction exposures, including those associated with forecast transactions, will be hedged when known, principally using forward currency contracts. Whilst the aim is to achieve an economic hedge the Company does not adopt an accounting policy of hedge accounting for these financial statements.

### **Credit risk**

The Company's principal financial assets are cash. The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies.

### **Exchange controls/distributions controls**

Baobab Resources plc did not at any time during the financial year remit funds from Mozambique.



## **Key performance indicators (KPI's)**

### **Retention of existing exploration licenses**

The Company has maintained its existing tenement holdings and increased the number of exploration leases from 23 leases to 25 leases during the financial year.

### **Executive and Non-Executive Directors attendance at Board meetings**

There has been 100% attendance at monthly Board meetings achieving the Board's desired attendance criteria.

### **Expenditure is undertaken in line with budget**

Actual expenditure has remained within budget during the year.

## **Principal risks and uncertainties**

The significant risks that may affect the Company include funding, political risk, labour risk and exploration risk. These are general economic conditions which may affect exploration companies. These risks are minimised through the development of sound management practices.

### **Funding risk**

The Company will from time-to-time seek to raise funds to manage its exploration program. Fund raising will usually be undertaken by placement of equities via the Alternative Investment Market or entering into a joint venture arrangement with a partner for one of its projects. The funding risk faced by the Company is that it may not be able to raise the required funds at the time that the funds are required. Under these circumstances the Company would amend its exploration program to remain within its existing financial resources.

### **Political risk**

The Company's exploration licenses are in Mozambique. The Company faces political risk whereby changes in government policy or a change of governing political party could place its exploration licenses in jeopardy. The Mozambique government has been stable for many years and fosters a beneficial climate towards companies exploring for resources. It is not anticipated that this situation is likely to change.



## **Labour risk**

The Company needs to employ both a skilled and unskilled labour force to undertake its exploration program. The labour risk identifies that a suitably skilled labour force may not be available. To mitigate the risk, the Company has undertaken to train employees in the skills required and has engaged suitably skilled specialists as required.

## **Exploration risk**

The Company has acquired 25 licenses exploring for a variety of commodities in Mozambique. The Company has a large land-holding covering six discrete project areas. The Company faces exploration risk that the results of the exploration activities indicate that there is no economically viable quantities of minerals from its exploration sites.

## **Creditors payment policy**

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of those terms and endeavour to abide by them. Trade creditors at year end amount to 55 days (2007: 55 days) average supplies for the year.

## **Indemnities and insurance**

Article 40 of Baobab Resources Plc Articles of Association allows the Company to, subject always to the provisions of the Statutes, and without prejudice to any protection from liability which may otherwise apply, allow the Company, at its discretion and subject to any policies adopted by the Directors from time to time, indemnify every Director or other officer or auditor of the Company out of the assets of the Company against all costs, charges, losses, expenses and liabilities which he may sustain or incur in relation to the Company in or about the actual or purported execution of the duties of his office or the exercise or purported exercise of his powers or otherwise in relation thereto, including any liability incurred by him in defending any criminal or civil proceedings, provided that no such indemnity shall be provided in respect of any liability incurred

The Directors and executive officers named in this Annual Report have the benefit of this requirement, as do individuals who formerly held one of those positions.

From time to time, we engage our External Auditor, Grant Thornton, to conduct non-statutory audit work and provide other services in accordance with our policy on the provision of other services by the External Auditor. The terms of engagement include an indemnity in favour of Grant Thornton.



## **Future developments**

The Company is continuing exploration in Mozambique.

## **Post balance sheet events**

On 27 November 2008, the Company completed a share placing of 20 million ordinary shares at 2.5p per share raising £500,000 before expenses.

The Company also announced that it has entered into an equity subscription agreement and option agreement with the International Finance Corporation (“IFC”). Under these agreements, IFC have agreed to subscribe for 11,000,000 Ordinary Shares at 4.1p per share to raise £451,000 before expenses. The IFC has been granted 7,333,333 options over the Company’s Ordinary Shares that are exercisable at 6.15p up to 27 November 2015.

Fox Davies Capital, the Company’s broker, has been granted broker warrants to subscribe to 1,420,000 Ordinary Shares exercisable at 2.5p and expiring on 27 November 2011.

The Company has also announced a proposed joint venture agreement with IFC in relation to the Company’s vanadiferous titano-magnetite projects at Tete.

Under the proposed agreement, IFC will acquire a 15% interest in the Tete project for US\$400,000, and will also contribute pro-rata to the 2009 exploration budget of the Tete project by spending an additional US\$330,000.

Mr Tony Walsh resigned as a non-executive Director on 22 November 2008.

Since 30 June 2008, the Directors are not aware of any other matter or circumstance that has significantly or may significantly affect the operations of the Company or the results of those operations, or the state of affairs of the Company in subsequent financial years.

## **Corporate**

The Company is limited by shares and domiciled in England. There were thirty-eight employees as at the year-end other than the non executive Directors.

## **Directors**

The Directors during the year were as follows:

Jeremy Dowler  
Brett Townsend  
Jonathan Beardsworth  
Ben James (appointed 14 April 2008)  
Tony Walsh (resigned 22 November 2008)  
Ian Cullen (resigned 14 April 2008)



## **Information on Directors**

### *Jeremy Dowler - Non Executive Chairman*

Jeremy's career as a finance director has taken him from the City of London to South Africa and Australia in senior administrative positions in insurance, publishing and resources, including Brockbank Group plc and Thomson Books (London book publishing division of International Thomson Organisation). Jeremy has served on the boards of various resource companies and was a founding shareholder and the former Finance Director of Platmin Limited, a platinum exploration and development Company with projects in South Africa. This Company is listed on AIM and the Toronto Stock Exchange. He brings significant administrative and financial skills to the Company.

### *Brett Townsend – Acting Managing Director*

Brett is a geologist with 20 years Australian and international experience in minerals, oil and gas and allied industries. He has held senior management positions within a range of industries including: director of Resource Consultants International Pty Ltd, general manager of Australian Drilling Tools and manager of the exploration division of J.O. Clough Pty Ltd. Brett has also worked as a financial planner including several years with Westpac Banking Corporation. He has been a director of Baobab Resources plc since 2006. Brett holds a Bachelor of Science degree from the University of Western Australia and is a member of the Australian Institute of Geoscientists.

### *Mr Ben James BSc. – Technical Director (appointed 14 April 2008)*

Ben is a senior geologist with over 10 years experience in the exploration and mining industry. Graduating with a degree in geology from the University of Otago in 1994, he has since held exploration and development roles in a variety of terrains including the Archaean Greenstone belts of Western Australia, Proterozoic gold and base metal systems in Zambia, porphyry gold-copper deposits in the Romanian Carpathians and Ordovician orogenic mesothermal gold mineralisation in New Zealand's South Island. Ben has worked for various companies including Oceana Gold, RSG Global, Katanga Resources, Hill 50 Gold and Herald Resources. As Technical Director of Baobab, Ben's role is focused on the advancement of the Company's projects in Mozambique.

### *Jonathan Beardsworth - Non-executive Director*

Jonathan Beardsworth is CEO of Metals Exploration Plc. Previously he was head of the London office of Standard Bank Plc's Mining and Metals team. In the last 12 years he has participated in and led a variety of M&A and strategic advisory assignments in the mining industry worldwide.

### *Tony Walsh –B.Com, MBA, CA, Non-executive Director (Resigned 22 November 2008)*

Tony is a Chartered Accountant who, after gaining experience with Ernst & Young in Dublin and Perth, joined the Australian Stock Exchange as a senior advisor and later Assistant Manager, Issuers. Tony brings to the Board a significant understanding of corporate governance requirements and related reporting, commercial and accounting issues.



*Ian Cullen – Previous Managing Director (Resigned 14 April 2008)*

Ian has been involved in mineral exploration and development for over 30 years and graduated as a geologist from the University of Western Australia in 1975. He has held senior management positions with major resources companies including Chief Geologist to Newmont Mining Corporation, Chief Consulting Geologist to Newcrest Mining Limited and Principal Geologist to Robe River Iron Associates and Pilbara Iron Pty Ltd (a member of the Rio Tinto group). He has exploration experience in Australia, Greece and Zambia and has been involved in the exploration and development of a wide range of commodities including gold and base metals. He brings to the Company a wealth of operating knowledge.

### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union. Company law requires the Directors 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 profit or loss of the Company for that period. 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



**Auditors**

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

A handwritten signature in black ink, appearing to read "Brett Townsend", written in a cursive style.

**Brett Townsend**  
**Director**

15 December 2008



## **Report of the independent auditor to the members of Baobab Resources plc**

We have audited the group financial statements of Baobab Resources plc for the year ended 30 June 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and notes 1 to 20. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of Baobab Resources plc for the year ended 30 June 2008. That report is modified by the inclusion of an emphasis of matter.

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 auditor's 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 group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Project Overview that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Project Overview. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.



### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the group 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 group 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 group financial statements.

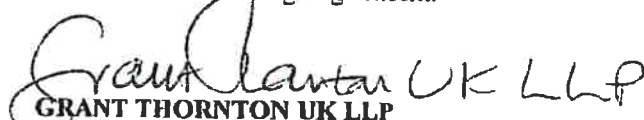
### **Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### **Emphasis of matter - going concern basis of preparation**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in the 'Going concern' paragraph contained in note 2 Significant accounting policies on page 23 of the financial statements. This concerns the uncertainty over the ability of the group to raise further equity of approximately £2 million to fund its operations as required. In view of the significance of these uncertainties we consider that they should be drawn to your attention, but our opinion is not qualified in this respect. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

  
**GRANT THORNTON UK LLP**  
**REGISTERED AUDITOR**  
**CHARTERED ACCOUNTANTS**  
**Gatwick**

15 December 2008



**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Year ended 30 June 2008 £	Year ended 30 June 2007 £
Other operating income	3	69,543	22,038
Exploration expenses		(1,689,031)	(761,170)
Administrative expenses		<u>( 571,085)</u>	<u>(811,531)</u>
<b>Loss from continuing operations before tax</b>	<b>5</b>	<b>(2,190,573)</b>	<b>(1,550,663)</b>
Income tax expense	7	_____ -	_____ -
<b>Loss for the period attributable to equity holders</b>		<b><u>(2,190,573)</u></b>	<b><u>(1,550,663)</u></b>
 <b>Earnings per share</b>			
Continuing operations			
Loss per share basic	8	(3.8p)	(4.9p)
Loss per share diluted	8	(3.8p)	(4.9p)



**CONSOLIDATED BALANCE SHEET AT 30 JUNE 2008**

	Note	Year ended 30 June 2008 £	Year ended 30 June 2007 £
<b>Non-Current Assets</b>			
Property, plant and equipment	9	114,020	77,458
<b>Total Non-Current Assets</b>		<u>114,020</u>	<u>77,458</u>
<b>Current Assets</b>			
Trade and other receivables	10	73,583	56,253
Cash and cash equivalents		<u>863,057</u>	<u>1,183,733</u>
<b>Total Current Assets</b>		<u>936,640</u>	<u>1,239,986</u>
<b>Total Assets</b>		<u>1,050,660</u>	<u>1,317,444</u>
<b>Equity</b>			
Share capital	12	650,784	488,195
Share premium		3,637,123	2,004,308
Reserves - Options	13	490,209	393,630
Reserves - foreign currency translation		(86,305)	(17,496)
Retained earnings		<u>(3,868,787)</u>	<u>(1,678,214)</u>
<b>Total Equity</b>		<u>823,024</u>	<u>1,190,423</u>
<b>Current Liabilities</b>			
Trade and other payables	11	<u>227,636</u>	<u>127,021</u>
<b>Total Liabilities</b>		<u>227,636</u>	<u>127,021</u>
<b>Total Equity and Liabilities</b>		<u>1,050,660</u>	<u>1,317,444</u>

The financial statements were approved by the board of Directors and authorised for issue on 15 December 2008. They were signed on its behalf by:

**Brett Townsend**  
 Director

15 December 2008

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Year ended 30 June 2008 £	Year ended 30 June 2007 £
<b>Net cash used in operating activities</b>	14	(561,984)	(463,449)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	9	(92,876)	(75,815)
Purchases of mineral properties		<u>(1,461,220)</u>	<u>(515,258)</u>
<b>Net cash flows used in investing activities</b>		<u>(1,554,096)</u>	<u>(591,073)</u>
<b>Cash flows from financing activities</b>			
Share issue costs		(94,634)	(297,859)
Proceeds from issues of shares		1,890,038	2,561,538
Repayment of borrowings		<u>-</u>	<u>(76,406)</u>
<b>Net cash flows from financing activities</b>		<u>1,795,404</u>	<u>2,187,273</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(320,676)	1,132,751
<b>Cash and cash equivalents at beginning of the period</b>		<u>1,183,733</u>	<u>50,982</u>
<b>Cash and cash equivalents at end of the period</b>		<u>863,057</u>	<u>1,183,733</u>

**CONSOLIDATED STATEMENT OF CHANGES  
 IN SHAREHOLDER'S EQUITY**

	Share Capital £	Share Premium £	Option Reserve £	Foreign Currency Translation Reserve £	Retained Earnings £	Total Equity £
Balance at 1 July 2006	205,230			1,593	(127,551)	79,272
Translation Reserves				(19,089)		(19,089)
Net income recognised directly in equity				(19,089)		(19,089)
Net loss for the year					(1,550,663)	(1,550,663)
Total recognised income and expense for the period				(19,089)	(1,550,663)	(1,569,752)
Shares issued	282,965	2,004,308				2,287,273
Employee share based compensation			393,630			393,630
30 June 2007	488,195	2,004,308	393,630	(17,496)	(1,678,214)	1,190,423

	Share Capital £	Share Premium £	Option Reserve £	Foreign Currency Translation Reserve £	Retained Earnings £	Total Equity £
Balance at 1 July 2007	488,195	2,004,308	393,630	(17,496)	(1,678,214)	1,190,423
Translation Reserves				(68,809)		(68,809)
Net income recognised directly in equity				(68,809)		(68,809)
Net loss for the year					(2,190,573)	(2,190,573)
Total recognised income and expense for the period				(68,809)	(2,190,573)	(2,259,382)
Shares issued	162,589	1,632,815				1,795,404
Employee share based compensation			96,579			96,579
30 June 2008	650,784	3,637,123	490,209	(86,305)	(3,868,787)	823,024



## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **1. General Information**

Baobab Resources Plc is a Company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in Note 4 and in the Directors report on pages 9 to 15. These financial statements are presented in pounds sterling which is also the currency of the primary economic environment in which the parent Company operates. The functional currency in Mozambique and Australia which is the economic environment of the trading subsidiaries is the Mozambican Metical and Australian Dollar respectively. Foreign operations are included in accordance with the policies set out in Note 2.

### **2. Significant accounting policies**

The significant policies which have been adopted in the preparation of this financial report are:

#### **Basis of Accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

#### **Going Concern**

The group meets its day-to-day working capital requirements through a positive cash balance and has no borrowing facilities at present. The group has incurred losses in the year. In common with other junior mining companies, Baobab Resources is reliant on raising further funds periodically through equity finance or possibly debt facilities.

The Company continues with the exploration and the development of mineral properties in Mozambique. The nature of the group's business is such that there can be considerable unpredictable variation in the timing of cash flows.

Bearing this in mind, the Directors have prepared projected cash flow information for the period ending 31 December 2009. The projections show a requirement to raise further funds of approximately £2.0 million in order to meet its planned exploration and development program in that period. However if the funds raised are more or less than this amount, the Directors will review and amend their plans accordingly.

On 27 November 2008, the Company successfully completed a fund raising of £951,000 before expenses as well as entering into a proposed agreement with the IFC whereby the IFC will acquire a 15% interest in the Tete project for US\$400,000, and will also contribute pro-rata to the 2009 exploration budget of the Tete project by spending an additional US\$330,000.