

4 May 2011

## Baobab Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/09	0.3	(1.6)	(1.9)	0.0	N/A	N/A
06/10	0.0	(2.0)	(1.4)	0.0	N/A	N/A
06/11e	0.0	(7.0)	(1.8)	0.0	N/A	N/A
06/12e	0.0	(2.5)	(1.6)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

### Investment summary: Tenge-Ruoni opportunity

The completion of a heli-borne aeromagnetic and radiometric survey over Baobab Resources' Tete tenement in Mozambique has revealed a new iron ore target less than 7.5km east of the Massamba Group Trend, where a Pre-Feasibility Study (PFS) is expected to commence in Q411. The crescent-shaped target is 3.5km long and 75-100m wide. Initial grab samples across the anomaly have an average grade of 48.9% Fe. On the back of these promising results, management has planned a 4,000m diamond drilling programme to test the extent and depth of the anomaly. Drilling will start this month with a maiden resource expected to be released in August.

### Resources to be released in May, June and July

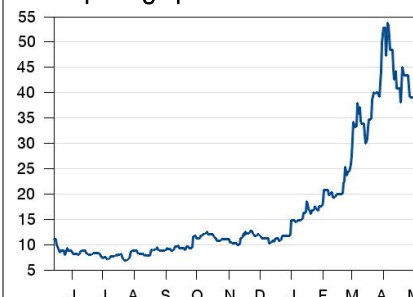
Drilling at the Massamba Group Trend is ready to step up after an announcement this month that Baobab has secured a further £12m on its Equity Line Facility with Dutchess Opportunity Cayman Fund (bringing the total to £17m). This funding, along with a further US\$1.3m from its JV partner, the IFC, and the £4.4m equity raising in mid-April will cover costs for the resource drilling campaigns currently under way at the Massamba Group Trend, as well as exploration drilling at the newly defined Tenge-Ruoni target. Resource updates are expected in May, June and July and a maiden resource for Tenge-Ruoni is scheduled for August.

### Valuation: Potentially more than £1 with South Zone Resource

At a price of 38p for Baobab, our valuation remains essentially unchanged from our previous update in March 2011. The company has a current EV/resource value of US\$11.01/t based solely on the company's current resource of 47.7Mt at 25.3% Fe. At the industry average of US\$3.53/t, this effectively discounts the South Zone resource of 78.3Mt at 31.3% Fe and attributes little or no additional value to resources at Chimbala, Monte Muande or the new exploration target at Tenge-Ruoni (anywhere between 150-400Mt at c 30% Fe).

Price 38p  
Market Cap £71m

#### Share price graph



#### Share details

Code BAO  
Listing AIM  
Sector Mining  
Shares in issue 187.6m

#### Price

52 week High 53.8p Low 6.9p

#### Balance Sheet as at 31 December 2010

Debt/equity (%) N/A  
NAV per share (p) 0.6  
Net cash April 2011e (£m) 6.0  
(post-fund raising)

#### Business

Baobab Resources is focused on developing its Tete iron-vanadium-titanium open-pit project in central-western Mozambique. A Pre-Feasibility Study is expected to commence in Q411.

#### Valuation

	2010	2011e	2012e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

#### Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

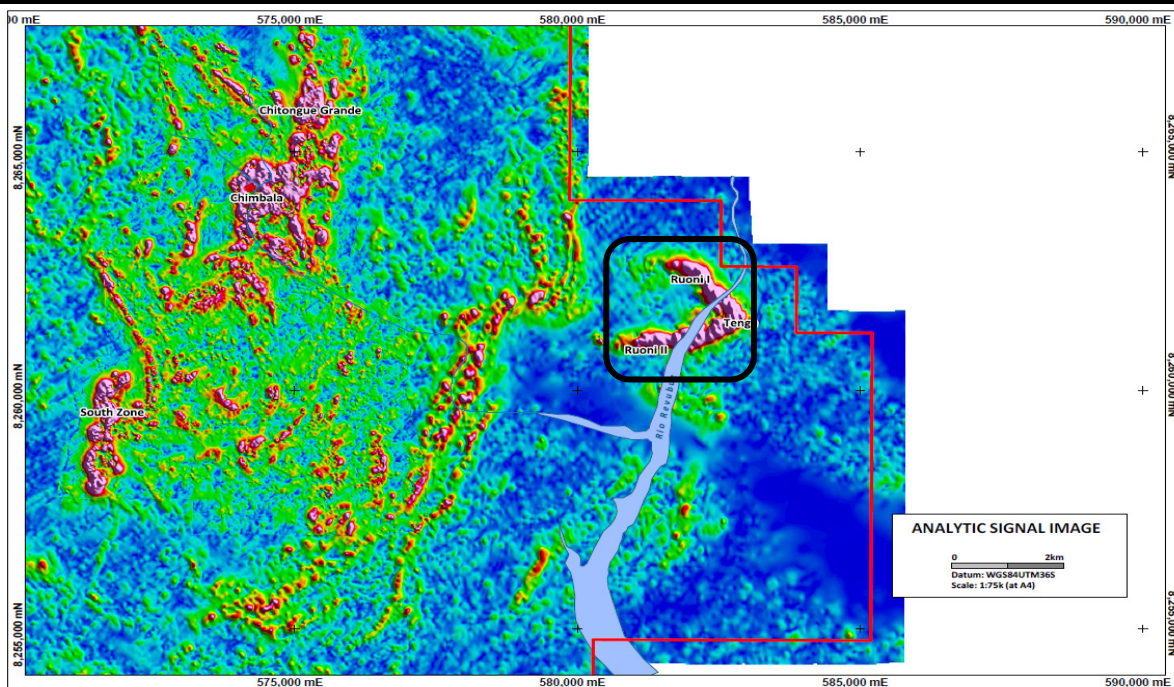
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## Tenge-Ruoni aeromagnetics uncover new target

Baobab has completed a heli-borne aeromagnetic and radiometric survey over its newly acquired Tenge-Ruoni magnetite target, 7.5km east of the Massamba Group Trend, revealing a crescent-shaped, strongly-magnetic anomaly 3.5km in length and 75-100m wide. Grab samples from the anomaly have returned an average grade of 48.9% Fe. The ground was acquired in November 2010, after the company announced it received governmental approval to extend the boundary of its 1035L licence. Management is positive about the results and has announced a 4,000m diamond drilling programme, which will commence in May. A maiden resource for the target is expected in August.

**Exhibit 1: Tenge-Ruoni (in black box) and Massamba Group trend geophysical coverage**



Source: Baobab Resources

### Edison's Tenge-Ruoni back-of-the-envelope resource

The Tenge-Ruoni trend represents a topographic high, sitting 50-100m above the surrounding plateau. As a base-case scenario, if we assume that mineralisation does not extend below the level of the plateau, the observed magnetic trend represents a potential resource of 133Mt (based on an assumed specific gravity of 3.8). However, if the resource depth is similar to that of the Massamba Group Trend (250m below the surface), we estimate it may have a resource potential of 333Mt (see Exhibit 2).

**Exhibit 2: Resource estimates for Tenge-Ruoni (in Mt), depending on depth of mineralisation and specific gravity**

Specific gravity	Depth of mineralisation				
	100m	150m	200m	250m	300m
3.6	126	189	252	315	378
3.8	133	200	266	333	399
4.0	140	210	280	350	420
4.2	147	221	294	368	441

Source: Edison Investment Research

## Financing initiatives during April 2011

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In March, we estimated that Baobab would need to spend c £20m to advance its Tete project through the PFS. At that stage, Baobab had drawn down the first £2m of a £5m Equity Line Facility issued in October 2010 by Dutchess Opportunity Cayman Fund, leaving a balance of £3m to be drawn down over the course of the next two-and-a-half years. On this basis, we estimated that the company would need to raise an additional c £15m to meet its requirements – the financial stability of the company for the next three years has now been met through a £12m increase in its Equity Line Facility, announced on 5 April. The facility enables Baobab the right but not the obligation to obtain funding at any time during the next three years by way of subscriptions for new shares in the company, priced at a 6% discount to the market price at timings, intervals and in sizes determined by the company.

In mid-April, Baobab raised £4.4m following an institutional roadshow in London. Along with this money and the increased Equity Line Facility, Baobab's Tete joint venture (JV) partner, IFC, has committed to a pro rata contribution of c US\$1.3m to advancing exploration across the tenement this year.

## Riversdale deal puts Mozambique in the spotlight

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During Q111, the Riversdale deal put Mozambique on the map for large-explorers/miners. The £2.4bn bid for Australian-owned Riversdale by Rio Tinto will see the Benga coal mine exporting coal by the end of 2011, improving infrastructure and access to the Tete province. Vale is already set up in Mozambique, with production at the Moatize coal project due in the second half of this year. Smaller companies are also moving quickly – in April, JSE-listed Basil Read entered into an agreement with Beacon Hill Resources to develop the Minas Moatize coal mine and Pan African has been awarded a mining licence on its Manica exploration project (gold).

Additionally, companies are starting to recognise the value of eastern African resources – closer proximity to Chinese and Indian markets compared with West Africa, existing infrastructure, some of which needs upgrading, and large, unexplored regions. Baobab's Tete project is strategically placed to access low tariff hydroelectric power from schemes on the Zambezi River and to take advantage of the planned Beira and Nacala port refurbishments.

## A series of assets across Mozambique

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Baobab's flagship asset is the Tete project (85% owned, 15% IFC), consisting of three areas of magnetite-ilmenite mineralisation: the Massamba Group Trend in the north and the satellite deposits of Tenge-Ruoni to the east and Singore to the south. The Massamba Group Trend is the focus of current work, which is spread across three prospects (Chitongue Grande, Chimbala, the South Zone). Drilling results from the South Zone were released in March, with encouraging grades (upping the average to 31.3% from 29.9% Fe), with drilling ongoing along mineralisation which remains open along strike and at depth. An RC drilling programme, totalling 30,000m, will be drilled at Tete in 2011, with results expected in May (South Zone), June (Chitongue Extension) and July (Chimbala). In addition to this, 8,000m of diamond drilling will be spread across Tenge-Ruoni and Singore.

The company is doing further work on its second asset, the Monte Muande magnetite/phosphorous project (JV with North River Resources). Baobab will earn a 60% participatory interest in Monte Muande upon committing to funding a First Work Programme of not less than US\$625,000 over a period of not more than 12 months (Baobab had scheduled 2,000m of diamond drilling at Monte Muande to commence during Q211). Thereafter, Baobab will have an exclusive right to increase its interest to 75% upon undertaking a PFS on the project (assuming North River elects not to participate) and potentially to 90% upon undertaking a definitive feasibility study (again, assuming that North River elects not to participate). The project is located c 10k south-west of the South Zone and consists of lenticular carbonatites with a 200-250Mt exploration target and a scoping study to be completed in September 2011. The following is a summary of the exploration target calculated by consultant Coffey by material type:

**Exhibit 3: Mt Muande project exploration target indicative tonnages and grades**

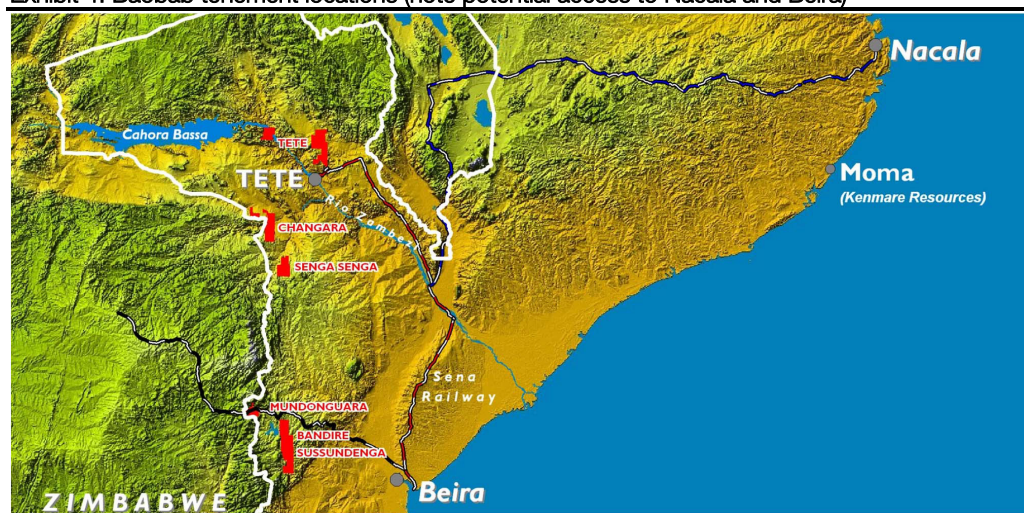
Area	Material type	Tonnage range (Mt)		Grade range			
		Lower	Upper	Fe %		P <sub>2</sub> O <sub>5</sub> %	
				Lower	Upper	Lower	Upper
Mt Muande drilled/trenched zone	Eluvial	3	5	45	55	3	7
Mt Muande drilled/trenched zone	Lower grade	90	110	4	10	2	7
Mt Muande drilled/trenched zone	Higher grade	30	35	20	25	2	7
<b>Mt Muande drilled/trenched zone</b>	<b>Sub-total</b>	<b>123</b>	<b>150</b>	<b>9</b>	<b>15</b>	<b>2</b>	<b>7</b>
Southwest extension		80	100				
<b>Grand total</b>		<b>203</b>	<b>250</b>				

Source: Baobab Resources

The company is also conducting continuing work on its Mundonguara (copper, gold, nickel), Changara (base metals, manganese) and Senga Senga (gold) projects.

The assets held by Baobab are shown below:

**Exhibit 4: Baobab tenement locations (note potential access to Nacala and Beira)**



Source: Baobab Resources

## Resource

Baobab is continuing to drill-out the 11,000m exploration programme along the South Zone and a final resource is anticipated in late May/early June. Thereafter, extensional drilling in the Chitongue Grande resource area has been scheduled to commence with an updated resource estimate proposed for late June. Drilling at the Chimbala prospect will dovetail with the Chitongue Grande

work and the company hopes to be able to release a JORC resource for this area as early as Q311.

Until further updates are received, our estimates for Baobab's overall resource within the three prospects of the Massamba Group Trend (not including back-of-the-envelope calculations for Tenge-Ruoni) are as follows:

**Exhibit 5: Edison estimate of Massamba Group Trend resources**

Resource	Updated estimate (January 2011)		Updated estimate (March 2011)	
	Tonnage (Mt)	Grade (Fe %)	Tonnage (Mt)	Grade (Fe %)
Maiden resource (Chitongue Grande)	47.7	25.3	47.7	25.3
Subsequent Chimbala drilling	213.7	27.1	213.7	27.1
<b>Sub-total</b>	<b>261.4</b>	<b>26.7</b>	<b>261.4</b>	<b>26.7</b>
<b>South Zone estimate</b>	<b>78.3</b>	<b>29.9</b>	<b>78.3</b>	<b>31.3</b>
<b>Grand total (mid-) estimate</b>	<b>339.7</b>	<b>27.5</b>	<b>339.7</b>	<b>27.8</b>

Source: Edison Investment Research

## Valuation

Baobab's shares are currently trading at a level (38p) that gives the company an enterprise value of US\$11.01 per tonne of JORC-compliant iron resource (cf an industry average of US\$3.53/t). Exhibit 6 demonstrates the value that Baobab potentially offers investors (versus the industry average) should the company successfully increase its resource to 126.0Mt @ 29.0% Fe (including our estimate of its South Zone resource) and 339.7Mt @ 27.8% Fe (including our estimate of the Chimbala resource also).

**Exhibit 6: Tete valuation summary (not including the IFC stake) at Baobab's current valuation and the industry average**

Note: \* 187.6m shares in issue. US\$1.6273/£.

Resource	47.7Mt @ 25.3% Fe	47.7Mt @ 25.3% Fe	126.0Mt @ 29.0% Fe	126.0Mt @ 29.0% Fe	339.7Mt @ 27.8% Fe	339.7Mt @ 27.8% Fe
EV/t Fe valuation (US\$/t)	11.01	3.53	11.01	3.53	11.01	3.53
Valuation (US\$m)	112.94	36.21	341.96	109.64	883.78	283.36
Per share (US cents)*	61.84	20.94	183.89	60.08	384.68	123.33
Per share (pence)*	38.00	12.87	113.00	36.92	236.39	75.79
Share price (pence)	38.00	38.00	38.00	38.00	38.00	38.00
Share price premium/(discount) (%)	0.0	195.3	(66.4)	2.9	(83.9)	(49.9)

Sources: Edison Investment Research, Thomson Reuters

## Effects of the Dutchess facility

Via its £17m equity facility and current cash of £6.0 (including £4.4m of new equity funding from 21 April) the company will be able to finance the estimated c £20m to advance the Tete project into pre-feasibility stage. The flexibility of equity line facility means that dilution of shares (caused by drawing down cash) decreases as Baobab's share price increases. Exhibit 7 shows the effect of share price on Baobab's issuing shares at a range of prices:

**Exhibit 7: Effect of fund raisings on Baobab equity shares in issue at varying prices**

Shares in issue (millions)	187.6	187.6	187.6	187.6	187.6	187.6
Funds to be raised via Dutchess facility (£m)	15.0	15.0	15.0	15.0	15.0	15.0
Additional funds to be raised (£m)	0.0	0.0	0.0	0.0	0.0	0.0
Market price at time of raising (pence)	33.0	40.0	50.0	75.0	100.0	150.0
Discounted price (pence)	31.02	37.60	47.00	70.50	94.00	141.00
New shares issued (millions)	48.5	40.0	32.0	21.3	16.0	10.7
Total shares in issue (millions)	236.1	227.6	219.6	209.0	203.6	198.3
Increase (%)	25.8	21.3	17.1	11.4	8.5	5.7

Source: Baobab Resources

Exhibit 8 shows the effect of such share issues on the valuations calculated in Exhibit 6:

**Exhibit 8: Effect of fund raisings on Baobab valuation per share**

Note: \* See Exhibit 6.

<b>Price at which funds raised (pence)</b>	31.02	37.60	47.00	70.50	94.00	141.00
New total shares in issue (millions)	236.1	227.6	219.6	209.0	203.6	198.3
Valuation of US\$883.78m per share (US cents)*	374.28	388.24	402.38	422.92	434.00	445.67
Valuation of US\$283.36m per share (US cents)*	120.00	124.48	129.01	135.59	139.15	142.89
Valuation of US\$109.64m per share (US cents)*	46.43	48.16	49.92	52.47	53.84	55.29
Valuation of US\$883.78m per share (pence)*	230.00	238.58	247.27	259.89	266.70	273.87
Valuation of US\$283.36m per share (pence)*	73.74	76.49	79.28	83.33	85.51	87.81
Valuation of US\$109.64m per share (pence)*	28.53	29.60	30.67	32.24	33.09	33.98

Source: Baobab Resources

**Exhibit 9: Financials**

	£'000s	2008 IFRS	2009 IFRS	2010	2011e	2012e
Year end 30 June						
<b>PROFIT &amp; LOSS</b>						
<b>Revenue</b>		<b>1</b>	<b>276</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cost of Sales		(2,204)	(1,792)	(2,001)	(6,943)	(2,885)
Gross Profit		(2,202)	(1,515)	(2,001)	(6,943)	(2,885)
<b>EBITDA</b>		<b>(2,202)</b>	<b>(1,515)</b>	<b>(2,001)</b>	<b>(6,943)</b>	<b>(2,885)</b>
<b>Operating Profit (before GW and except.)</b>		<b>(2,259)</b>	<b>(1,570)</b>	<b>(2,040)</b>	<b>(6,957)</b>	<b>(2,899)</b>
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
<b>Operating Profit</b>		<b>(2,259)</b>	<b>(1,570)</b>	<b>(2,040)</b>	<b>(6,957)</b>	<b>(2,899)</b>
Net Interest		68	19	79	46	38
<b>Profit Before Tax (norm)</b>		<b>(2,191)</b>	<b>(1,551)</b>	<b>(1,961)</b>	<b>(6,911)</b>	<b>(2,861)</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(2,191)</b>	<b>(1,551)</b>	<b>(1,961)</b>	<b>(6,911)</b>	<b>(2,861)</b>
Tax		0	0	0	0	0
<b>Profit After Tax (norm)</b>		<b>(2,191)</b>	<b>(1,551)</b>	<b>(1,961)</b>	<b>(6,911)</b>	<b>(2,861)</b>
<b>Profit After Tax (FRS 3)</b>		<b>(2,191)</b>	<b>(1,551)</b>	<b>(1,961)</b>	<b>(6,911)</b>	<b>(2,861)</b>
Average Number of Shares Outstanding (m)		57.0	83.4	142.1	173.3	208.7
EPS - normalised (p)		(3.8)	(1.9)	(1.4)	(4.0)	(1.4)
EPS - FRS 3 (p)		(3.8)	(1.9)	(1.4)	(4.0)	(1.4)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>						
<b>Fixed Assets</b>		<b>114</b>	<b>58</b>	<b>28</b>	<b>14</b>	<b>0</b>
Intangible Assets		0	0	0	0	0
Tangible Assets		114	58	28	14	0
Investments		0	0	0	0	0
<b>Current Assets</b>		<b>937</b>	<b>530</b>	<b>2,318</b>	<b>1,897</b>	<b>13,643</b>
Stocks		0	0	0	0	0
Debtors		74	2	3	0	0
Cash		863	529	2,315	1,897	9,643
<b>Current Liabilities</b>		<b>(228)</b>	<b>(377)</b>	<b>(612)</b>	<b>(675)</b>	<b>0</b>
Creditors		(228)	(377)	(612)	(675)	0
Short term borrowings		0	0	0	0	0
<b>Long Term Liabilities</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	0	0	0
<b>Net Assets</b>		<b>823</b>	<b>211</b>	<b>1,733</b>	<b>1,236</b>	<b>13,643</b>
<b>CASH FLOW</b>						
<b>Operating Cash Flow</b>		<b>(630)</b>	<b>(539)</b>	<b>(1,538)</b>	<b>(6,699)</b>	<b>(3,381)</b>
Net Interest		68	19	79	46	38
Tax		0	0	0	0	0
Capex		(1,554)	(1,011)	(6)	0	(4,000)
Acquisitions/disposals		0	0	0	0	0
Financing		1,795	1,197	3,251	6,235	15,089
Dividends		0	0	0	0	0
Net Cash Flow		(321)	(334)	1,786	(418)	7,746
<b>Opening net debt/(cash)</b>		<b>(1,184)</b>	<b>(863)</b>	<b>(529)</b>	<b>(2,315)</b>	<b>(1,897)</b>
HP finance leases initiated		0	0	0	0	0
Other		0	(0)	(0)	0	0
<b>Closing net debt/(cash)</b>		<b>(863)</b>	<b>(529)</b>	<b>(2,315)</b>	<b>(1,897)</b>	<b>(9,643)</b>

Sources: Edison Investment Research, company accounts

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