



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 written over a thin horizontal line.

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% TiO₂ 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 μ m grind and 800 Gauss low intensity magnetic separation (LIMS) has produced a high mass yield concentrate assaying 56% iron and 0.7% V₂O₅.
- 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 (V₂O₅) 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.