

**ZAMBEZI RESOURCES LIMITED ARBN 124 462 826  
AND SUBSIDIARIES**

# **ZAMBEZI RESOURCES LIMITED**

**HALF YEARLY REPORT  
For the half year ended 30 September 2007**

ZAMBEZI RESOURCES LIMITED ARBN 124 462 826  
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**ZAMBEZI RESOURCES LIMITED ARBN 124 462 826  
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## **Corporate Directory**

### **DIRECTORS**

**Brian James Rear**  
Non Executive Chairman, Australia

**Julian Peter Ford**  
Managing Director, Australia

**Geoffrey Ian Johnson**  
Exploration Director, Australia

**Jeremy Bruce Earl Wrathall**  
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**SECRETARY**  
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### **NOMINATED BROKER**

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## DIRECTORS' REPORT

### Highlights

Zambezi Resources Limited ("Zambezi" or "the Company") (ticker ZRL) has achieved substantial progress in meeting its objectives during the period.

At the corporate level, the Company completed a dual listing on the Australian Securities Exchange (ASX). The £6.3 million raised on the ASX in July together with the £3.9 million raised through an earlier private placement on AIM in April will see the Company well funded for the year. During the first half of the year, the Company successfully completed a major recruitment of skilled personnel and commissioned the five new drill rigs which had been mobilized into Zambia by Zambezi's drilling contractor partners. The build up and deployment of the expanded exploration capacity has allowed Zambezi to successfully manage the two new Glencore International AG ("Glencore") JV's, while escalating its own exploration activities.

Having reviewed the global environment for uranium exploration and development, the Company made a strategic decision to farm out its Zambian Energy (Uranium) rights where these were deemed not to be coincident with copper/gold prospects. As a result, Zambezi entered into two new Uranium Joint Ventures during the six month period, one with Lithic Metals and Energy Limited and the other with Rio Tinto Limited. So far the Company has farmed out the energy mineral rights over approximately 50% of its tenement area.

At the exploration level, for the reporting period, 30,000 metres was drilled at Cheowa and an additional 20,000 metres was drilled on other projects, primarily at Kangaluwi, Zambezi's 100% owned copper project. In addition 45,000 rock and soil geochemical samples were taken. This represents a three-fold increase in the drilling activities and a four-fold increase in the sampling activities over the corresponding period last year.

At Cheowa, where Glencore are spending US\$10 million to earn a 51% interest, the Company together with its drilling partners successfully commissioned five new drill rigs. All contracts for the Pre Feasibility Study due for completion in May 2008 have now been awarded. A 40,000 metre drilling program aimed at defining an 8 million tonne target resource is on target for completion by March 2008. By the end of September 2007, the Company had extended the CC2 target area from 700 metres to 2,100 metres along strike. At the end of November 2007, the CC2 extended mineralization has now been defined over a strike length of 2,700 metres and 200 metres depth. A central portion of the CC2 target zone has now been defined over a strike length of 1,000 metres and down to a depth of 400 metres (see Figure 2). Initially the program was hampered by slower than budgeted drilling rates, although the current drilling rates now well exceed budget. A major impediment to the publication of results has been the slow assay turn-around. Assay turn-around periods have gone from 35 days at the beginning of the year to 75 days in November.

For the reporting period, 15 of the additional 21 conductors at Cheowa have been drill tested. By March 2008 year end, 19 of the additional conductors will have been tested. The terrain in the area of the eastern conductors has in the main proven too challenging for the track mounted RC drill rigs, which has necessitated the use of the man-portable diamond rigs. This has both slowed progress and increased costs.

At Cheowa, the Company will embark on a helicopter-supported drilling program through the wet season (January to March 2008), with deep diamond drilling aimed at testing the 400 metres to 800 metres deep zone at CC2. Glencore is expected to have met their US\$10 million expenditure by the June quarter of 2008 and in so doing will have earned a 51% interest in the Cheowa project.

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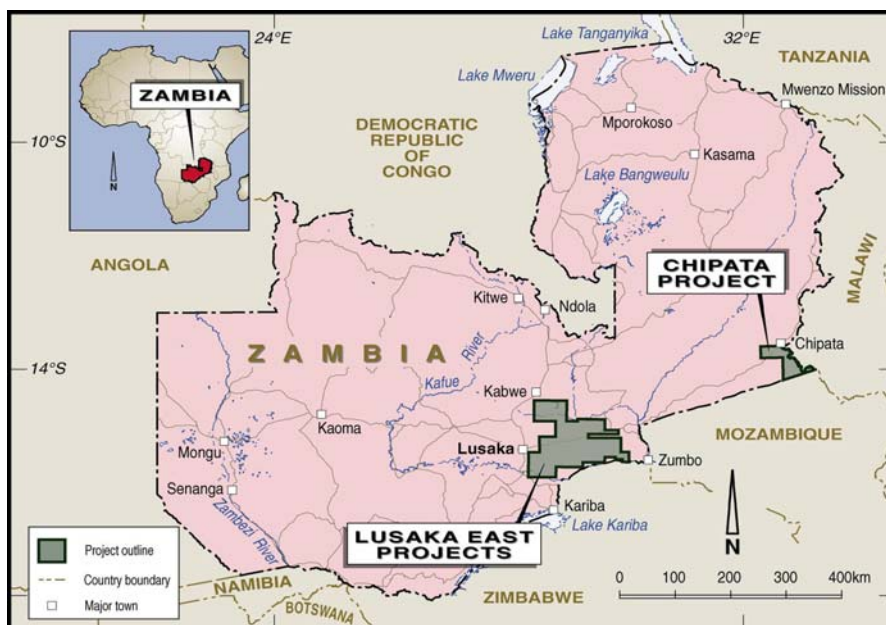
At Kanganluwi, further soil geochemical sampling completed the regional program around Kanganluwi and defined a new copper target 5km south-west of Kanganluwi. A 20,000 metre drilling program commenced to test and define an initial resource at Kanganluwi over a restricted strike length.

## **Corporate Activities**

Zambezi has reported a loss of £ 1,585,340 with capitalised exploration expenditure increasing to £10.5 million as at 30 September 2007. Zambezi is proud to report that approximately 85% of expenditure, excluding non-cash items, was spent on exploration activities. The Group is well funded with cash of £7.5 million on hand at 30 September 2007.

In the six months to September 2007, Zambezi successfully completed a secondary placement to raise £3.9 million in April 2007 and subsequently raised £6.3 million in July 2007 as part of the ASX listing.

In May, Zambezi announced that it had entered into a legally binding Heads of Agreement with Zambezi Nickel Limited (now renamed Lithic Metals and Energy (LMY)) to enter into a Joint Venture under which LMY may acquire uranium rights to Zambezi's highly prospective Oryx uranium prospect plus another 11 high priority radiometric anomalies identified within 4 Zambian mineral licences covering 6,800 km<sup>2</sup>. LMY has a commitment to pay a minimum exploration expenditure of US\$3 million, of which US\$2 million must be applied to the Chumbwe licence, and may earn a 51% interest in the uranium rights by spending US\$5 million. LMY may increase its interest at Chumbwe to 75% by completing a Bankable Feasibility Study at Chumbwe and a 75% interest in the other projects by completing an additional Bankable Feasibility Study. Zambezi will retain all rights to other minerals on the Mpande, Rufunsa, Mulungushi and Chumbwe licences.



**Zambian Project Locations**

In September 2007, the Company announced that it had signed a Letter of Intent with Rio Tinto Limited over parts of the Mulofwe tenement with respect to uranium rights. Under the terms of the Letter of Intent, Rio Tinto will commit to spend US\$1 million minimum to assess the potential

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for uranium mineralisation over approximately 1,250 km<sup>2</sup> of the Mulofwe prospect. Rio Tinto may elect to spend an additional US\$5 million to earn 51% of the uranium mineral rights, in which case the parties have agreed to form an Incorporated Joint Venture. Once Rio Tinto has earned a 51% interest in the project, Zambezi may elect to retain their 49% interest by meeting their share of expenditure or elect to dilute to 20% in which case Rio Tinto may earn an additional 29% for a total of 80% by completing a Bank Feasibility Study. Zambezi may elect to convert their interest to a 2.5% Net Smelter Royalty at any time after Rio Tinto has earned its 51% share of the project. Rio Tinto will be the manager of the exploration program and any Joint Venture entered into.

## **Strategy**

Zambezi remains committed to discovering and developing Copper/Gold projects within its extensive exploration portfolio and remains committed to focusing on Zambia.

At the Cheowa Copper-Gold Project, the Company has chosen to enter into joint venture with Glencore International AG ("Glencore") who has a substantial operational presence in Zambia. At Kangaluwi, Zambezi's second priority copper-gold project, the Company plans to assess the projects scale and mineral endowment in 2007 before a decision on a development course of action is made in early 2008. Zambezi will also commit approximately US\$4 million in 2007/8 to developing an additional pipeline of projects. Having reviewed the results of the project generation efforts in 2007, the Company is confident that it can continue to find and develop at least one project every one or two years for the foreseeable future.

Having embarked on a limited uranium exploration program and reviewed the challenges of both exploration and more importantly the production and export of uranium, in early 2007 the Company decided to farmout its uranium opportunities where a strategic fit was evident. As a result the Company entered into two uranium joint ventures in the six month reporting period as outlined above. At this stage, Zambezi has elected to retain the uranium rights over the balance of its portfolio. In 2008, the Company plans to fly additional radiometric coverage over the Jessie and Chipata prospects.

Having entered into four joint ventures in 12 months, Zambezi has decided to put on hold any further JV activities until it has bedded down its existing JV's. As a result Zambezi continues to conduct limited exploration activities on its gold projects and will review the strategy for these gold projects in the new year.

## **Forward Looking**

Over the next six month period to March 2008, Zambezi expects to drill an additional 40,000 metres for an annual cumulative total of 90,000 drill metres. The majority of drill assay results for samples taken during the first half of the year are expected to be reported in the six month period to March 2008. The 2008 proposed exploration and development plans will be materially influenced by the assay results which will be forthcoming in the next six months.

Key decisions affecting the Company will be the results of the Cheowa drill out campaign and the size and grade of the resource for Cheowa from the year ending March 2008. Having scoped out the parameters for a positive prefeasibility at Cheowa, the grade width per vertical meter will be a key parameter in determining whether Cheowa can be profitably developed.

## OPERATIONS REPORT

During the period, significant progress was made on the Company's priority Zambian projects at **Cheowa** and **Kangaluwi** (Figure 1). Eight drilling rigs conducted drilling on three copper-gold projects, and in excess of 50,000 metres of drilling has been completed to date this field season. Assay results have been received for only 20% of the holes drilled to date (Table 1), but the bulk of assays results are expected by 31 March 2008.

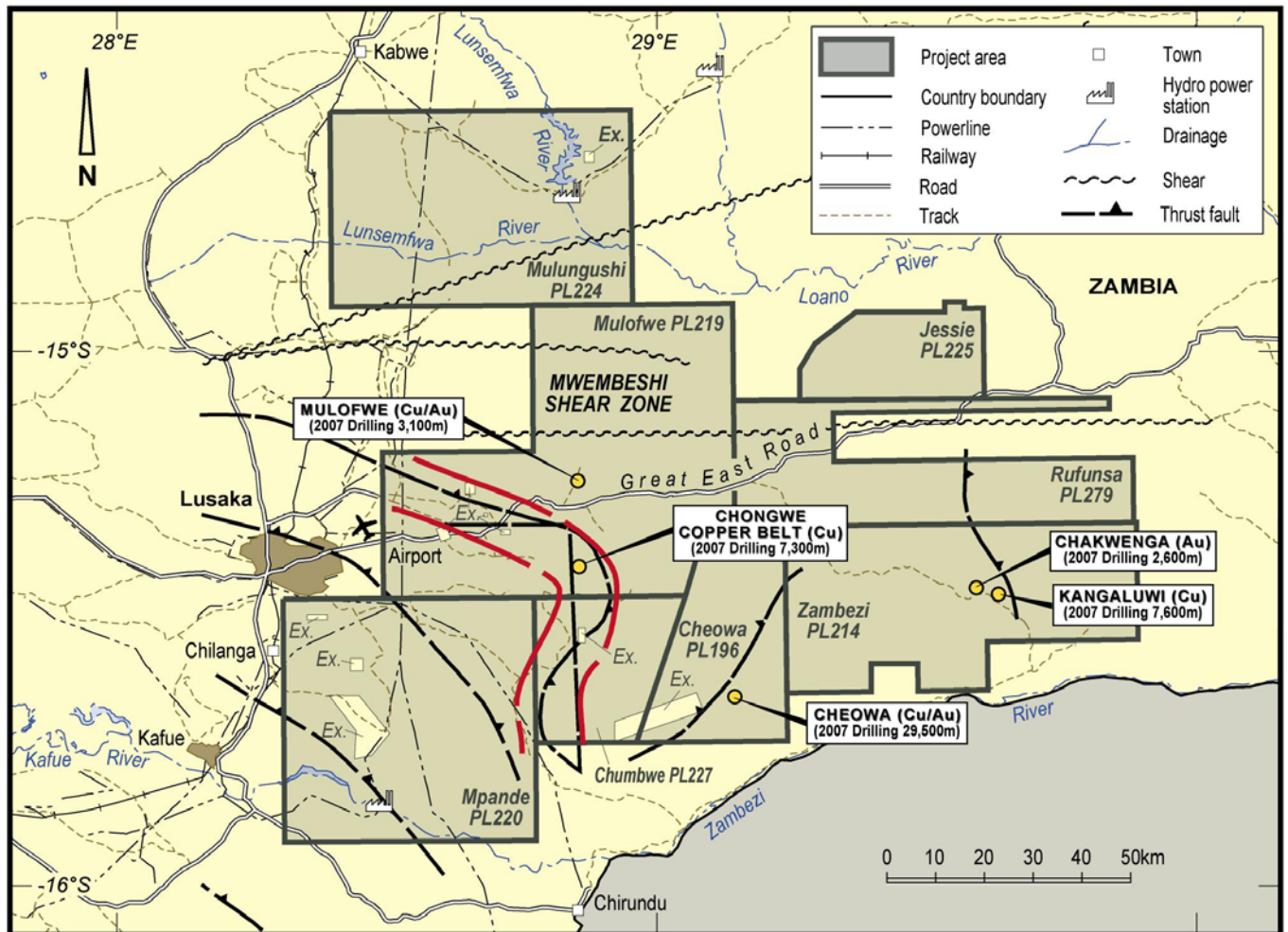


Figure 1: Lusaka East Project Locations and 2007 Drilling Statistics

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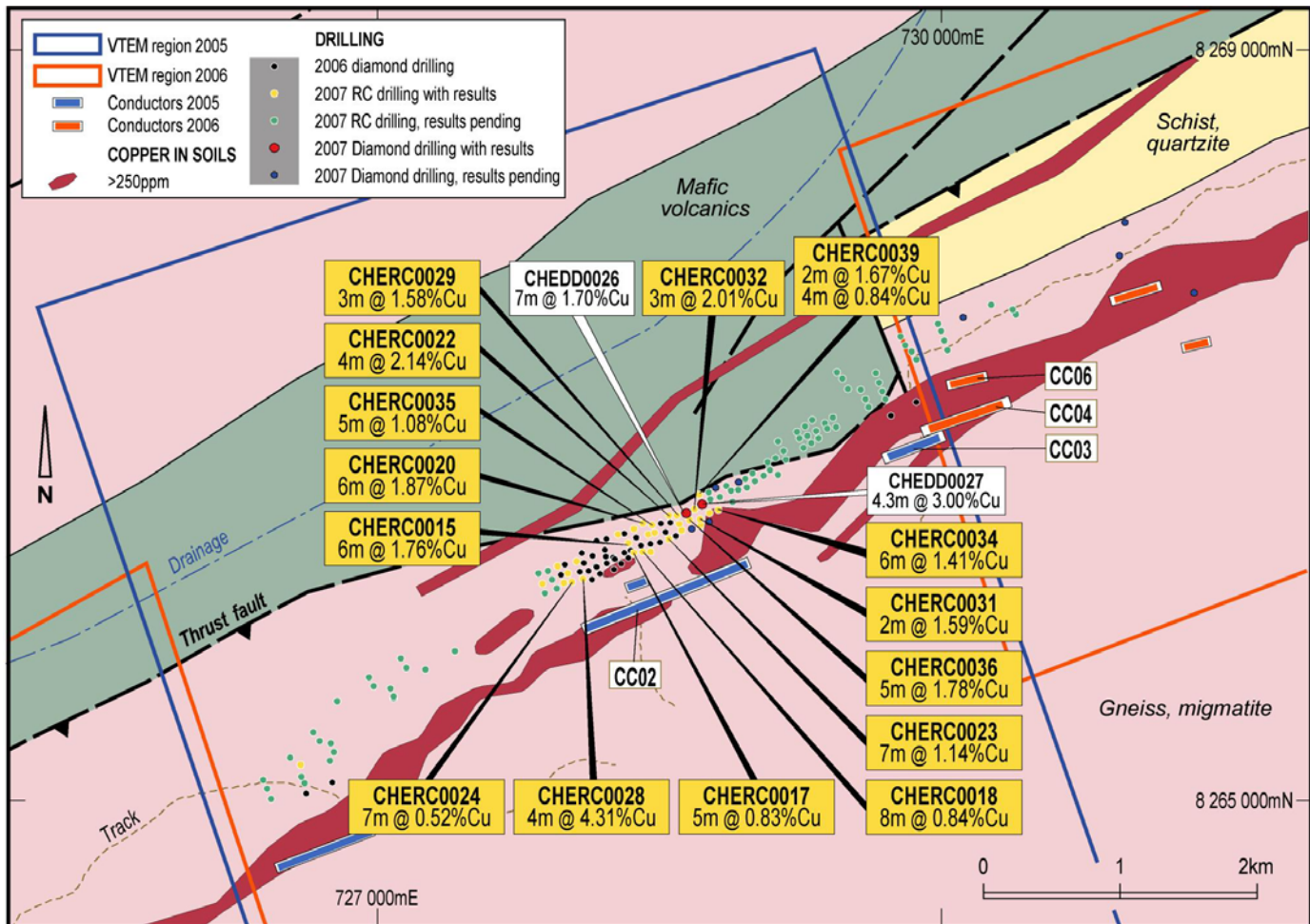
**Table 1: Drill Metres Conducted and % Drill Assay Results Received and Reported**

Period To	Drill Metres	% Drill Assays Received and Reported
September 30 2007	50,000	20%
November 30 2007	75,000	30%
March 31 2008*	90,000	60%

\*forecast

**COPPER PROJECTS**

At **Cheowa** (Glencore AG International earning 51%), the Company's priority copper-gold project, four drilling rigs continued resource definition drilling, with 29,500 metres of drilling completed to the end of September.

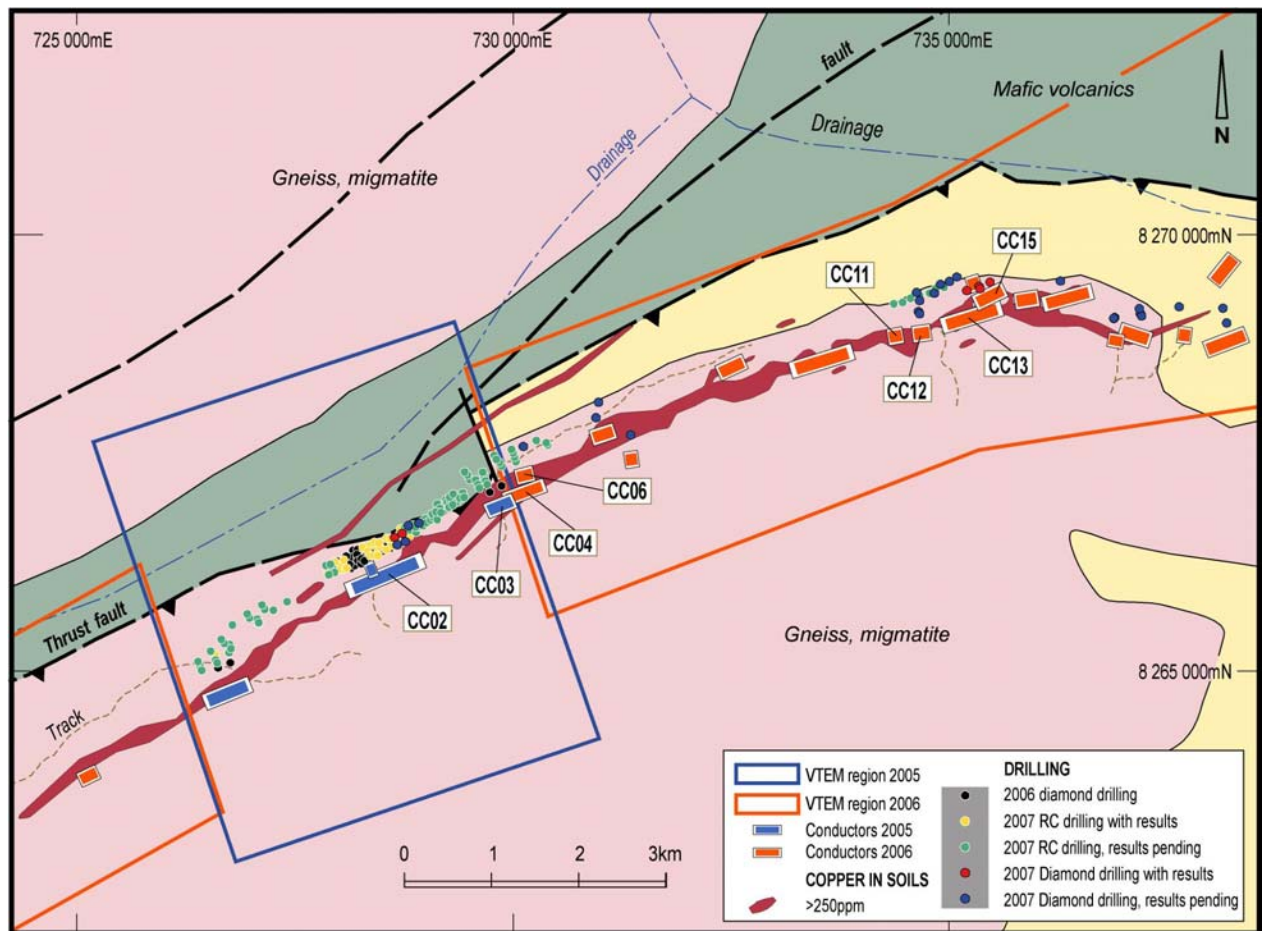


**Figure 2: Cheowa CC2 Prospect RC and Diamond Drill Results**

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Infill and extension Reverse Circulation (“RC”) drilling at the CC2 prospect returned encouraging results including 11m at 3.18% copper and 0.25 g/t gold, 8m at 2.12% copper and 2.15g/t gold, 9m at 1.57% copper and 0.24 g/t gold, 8m at 1.56% copper and 0.46g/t gold, 4m at 1.57% copper and 0.31g/t gold, 4m at 1.53% copper and 0.54g/t gold, 4m at 4.31% copper and 0.99 g/t gold, 6m at 1.87% copper and 0.25 g/t gold, 6m at 1.76% copper and 0.20 g/t gold, 5m at 1.78% copper and 0.23 g/t gold, 4m at 2.14% copper and 2.01 g/t gold, 6m at 1.41% copper and 0.40 g/t gold, and 7m at 1.14% copper and 0.07 g/t gold (see Figure 2, Table 2).

Diamond drilling at the CC2 prospect also returned excellent results including 4m at 3.00% copper and 0.40 g/t gold, and 7m at 1.70% copper and 0.40 g/t gold (see Figure 2, Table 2).



**Figure 3: Cheowa Project Drillhole Locations, VTEM Survey Outlines and Conductor Locations**

At the CC2 prospect - where an initial Inferred Mineral Resource estimate prepared in accordance with the 2004 JORC Code of 1.7 million tonnes at 1.5% copper and 0.5g/t gold was reported earlier this year - a total of 80 RC holes for 12,700 metres and 6 diamond holes for 1,050 metres have been completed so far this field season. The drilling is designed to infill and extend the area incorporated in the resource estimate. The results received and reported to date are from 42 of the 80 RC holes and 2 of the 6 diamond holes.

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Based on assays received and visual estimates, the strike length of mineralisation at CC2 has been extended to 2,100 metres, a 300% increase from the strike of the previously defined resource. CC2 remains open to the west and at depth, with drill testing only to 200 metres vertical to date. A new phase of diamond drilling to test to 400 metres vertical and then to 600 metres vertical has now commenced at CC02 with the arrival of a deeper capacity drilling rig.

A revised resource estimation exercise is now underway for CC2, with results expected in December. Prefeasibility work is underway, with expert consultants now appointed in the following areas: process design; mine design; comminution testwork and design; power, water and transport infrastructure; geotechnical engineering; environmental management; and resource estimation. The pre-feasibility study remains on track for completion in May 2008.

In addition to the mineralised strike at CC2, a further mineralised zone has been identified to the east of CC2, commencing 300 metres to the east of CC2 and extending an additional 800 metres along strike to the east at conductors CC3, CC4 and CC6 (see Figures 2 and 3). This zone remains open to the east and at depth. Assay results are awaited.

Scout diamond drilling is also being conducted at the eastern VTEM conductors, which occur approximately 7.5 kilometres along strike to the east of CC2 (see Figure 3). To the end of September, 32 diamond holes had been completed for 5310 metres over 15 conductors. The holes are designed to test both copper anomalism in surface trenches and soils, and the modelled positions of the VTEM conductors. Both pyrrhotite-dominant and chalcopyrite-dominant mineralised intervals have been intersected, with mineralisation observed to date over 600 metres of strike at conductors CC11, CC12, CC13 and CC15. This mineralisation is open in both directions and at depth, and appears to be structurally complex, with several parallel lodes and offsets attributable to late stage faulting. Results have been received for only 3 holes from CC13 to date, including 6.7m at 0.58% copper and 0.36 g/t gold, and 2.8m at 1.38% copper and 0.16 g/t gold (see Table 2). Further results are expected in December.

At the 100% owned Kangaluwi copper-gold project, initially three drilling rigs conducted preliminary resource definition drilling, with 7,600 metres of drilling completed to the end of September. By November, five drilling rigs were in operation, comprising three RC rigs and two diamond rigs.

At Kangaluwi intensive drilling activity is focussed on completing 50 metres spaced drill sections over a strike length of 800 metres prior to the commencement of the wet season. The drilling is being carried out in the area that returned excellent results from a short seven-hole RC program completed late 2006. Best results from that program included 21m @ 1.88% copper (KNGRC0006); 14m @ 1.13% copper, 16m @ 1.95% copper and 2m @ 4.03% copper (KNGRC0002); 9m @ 1.57% copper (KNGRC0005); and 6m @ 1.09% copper (KNGRC0007). First assay results from the 2007 drilling are expected in late Q4 of 2007 and it is anticipated that an initial resource estimate will be completed in Q1 2008.

Elsewhere in the Kangaluwi region, extension regional soil geochemical sampling has defined 2 new mineralised prospects, 2km and 4.5km southwest of Kangaluwi (Fig 4). These prospects occur in a similar structural and stratigraphic setting to that of Kangaluwi, and will be followed up with further work in 2008.

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**Table 2: Cheowa Copper-Gold Project, RC and Diamond Drill Hole Assay Results**

Drillhole	Coordinates		Dip	Azi	Total Depth (m)	From (m)	To (m)	Interval Width (m)	Cu %	Au g/t
	N	E								
CHERC0001	8266191	728150	-60	160	90	40	51	11	3.18	0.25
CHERC0003	8266217	728192	-60	160	87	32	36	4	1.00	0.02
						38	46	8	2.12	2.15
CHERC0005	8266233	728250	-60	160	81	10	16	6	0.54	0.06
						21	28	7	0.95	0.96
CHERC0006	8266316	728220	-60	160	140	101	110	9	1.57	0.24
CHERC0008	8266305	728339	-60	160	80	43	47	4	1.57	0.31
CHERC0009	8266273	728228	-60	160	64	37	45	8	1.56	0.46
CHERC0010	8266270	728304	-60	160	172	130	134	4	1.53	0.54
CHERC0012	8266398	728231	-70	160	219	153	156	3	1.08	0.24
CHERC0015	8266383	728344	-60	160	150	121	127	6	1.76	0.2
CHERC0017	8266330	728373	-60	160	77	57	62	5	0.83	0.2
CHERC0018	8266335	728422	-60	160	65	20	28	8	0.84	0.15
CHERC0020	8266489	728420	-55	160	230	189	195	6	1.87	0.25
CHERC0022	8266530	728562	-60	160	199	177	181	4	2.14	2.01
CHERC0023	8266402	728560	-60	160	87	53	60	7	1.14	0.07
CHERC0024	8266175	728045	-60	160	111	35	42	7	0.52	0.13
CHERC0028	8266190	728102	-60	160	100	69	73	4	4.31	0.99
CHERC0029	8266529	728603	-60	160	175	148	151	3	1.58	0.59
CHERC0031	8266510	728726	-60	160	125	73	75	2	1.59	0.3
CHERC0032	8266564	728695	-60	160	155	129	132	3	2.01	0.27
CHERC0034	8266558	728821	-60	159	117	21	27	6	1.41	0.4
CHERC0035	8266479	728470	-60	160	210	169	174	5	1.08	0.15
CHERC0036	8266503	728669	-60	160	150	87	93	5	1.78	0.23
CHERC0039	8266640	728720	-60	160	225	191	193	2	1.68	0.18
						198	202	4	0.84	0.09
CHEDD0026	8266548	728652	-60	160	171.5	141	148	7	1.7	0.4
CHEDD0027	8266593	728740	-60	160	174.5	117.7	122	4.3	3	0.4
CHEDD0062	8269385	735225	-60	170	141.4	82	87.5	5.5	0.57	0.04
CHEDD0063	8269406	735379	-60	170	180.4	44.5	51.2	6.7	0.58	0.36
CHEDD0064	8269481	735493	-60	170	132.4	70	72.8	2.8	1.38	0.16

Coordinate system Arc50 UTM Zone 35S . Mineralised intervals calculated on basis of lower cutoff of 0.3% Cu, minimum mineralised interval of 1m, maximum internal waste of 1m. Mineralised intervals >3m% copper reported here. Mineralisation dipping to north at 50-55 degrees. Mineralised widths reported on downhole basis, true width approximately downhole width x 0.9 . CHERC prefix denotes RC drillholes, CHEDD prefix denotes diamond drillholes.

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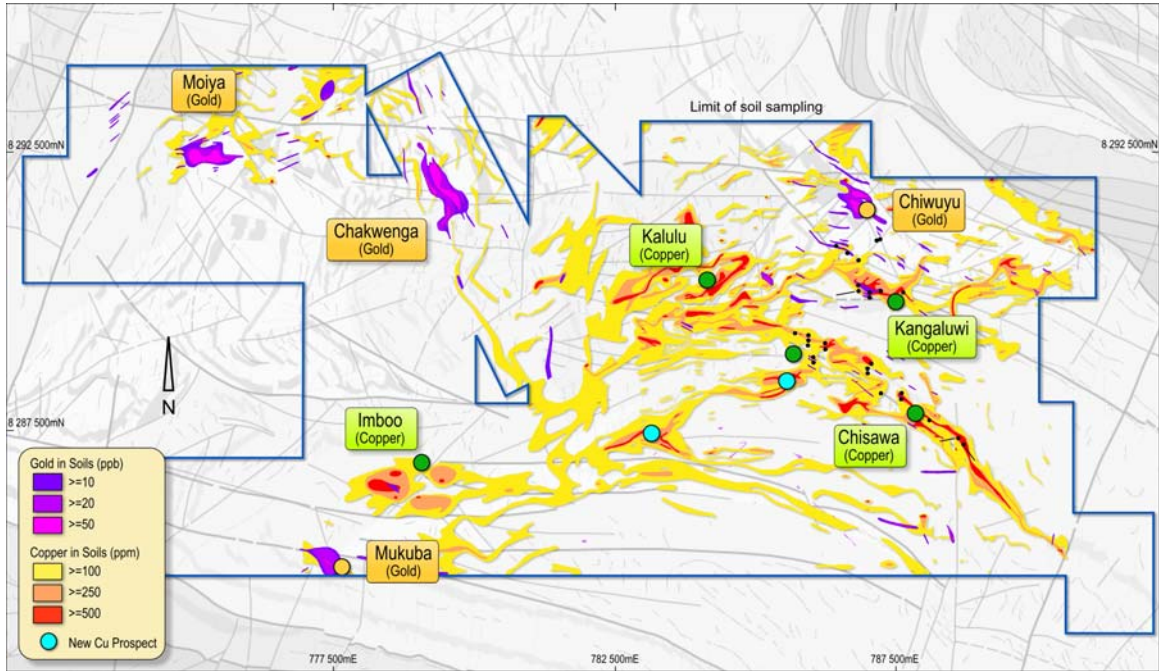


Figure 4: Kangaluwi and Regional Soil Geochemical Sampling

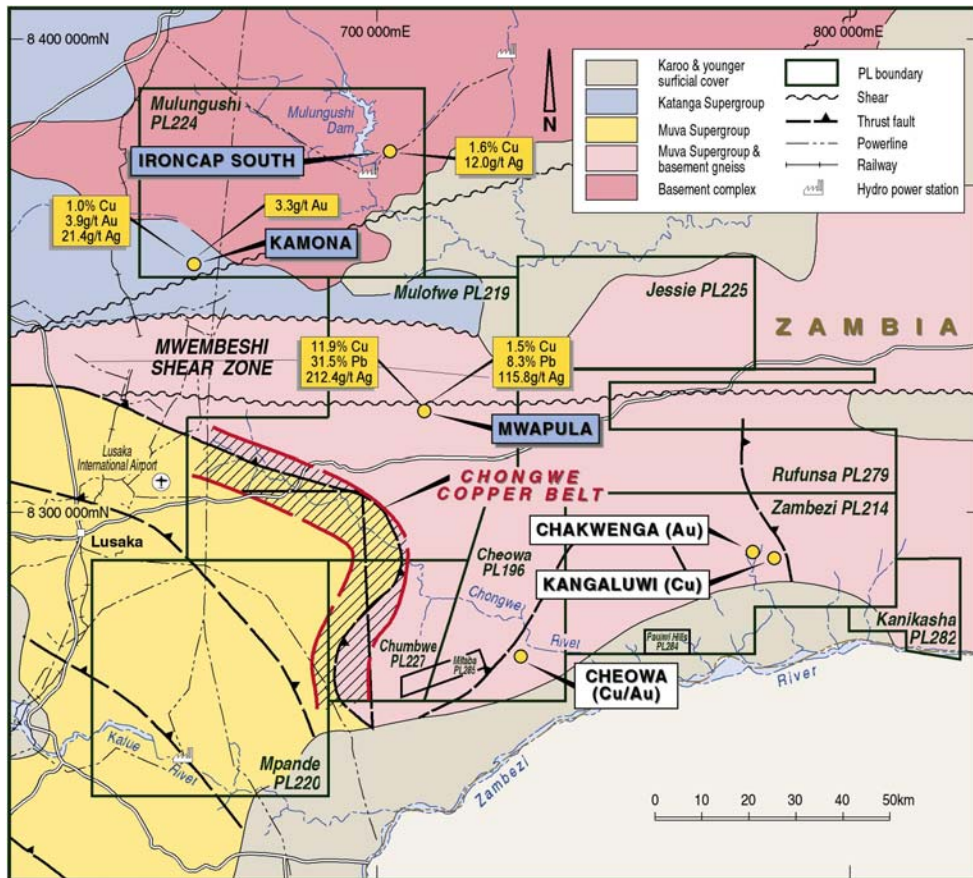


Figure 5: Rock Chip Assay Results from Newly Discovered Prospects

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**PROJECT GENERATION**

Elsewhere, geochemical sampling of projects from the Company's exploration pipeline has resulted in the discovery of three new mineralised prospects (see Figure 5, Table 3).

At the **Mwapula** prospect from the polymetallic Mulofwe Dome project area, rock chip sampling and mapping has outlined an area of highly anomalous copper-lead mineralisation, including **11.93% copper, 31.50% lead and 212.4 g/t silver, and 1.55% copper, 8.33% lead and 115.8 g/t silver**. The mineralisation occurs in quartz veins up to 1.5m in width, associated with malachite, galena, chalcocite and pyrite. The mineralised zone occurs within a 600 metres wide quartz-veined sheared corridor comprising predominantly quartzo-feldspathic schists and gneisses. The corridor trends north-west, and has been defined by mapping over a strike length of 2.4km to date. Further assay results are awaited.

**Table 3: Regional Exploration Projects – Selected Rock Chip Sample Assays**

Coordinates		Au g/t	Cu %	Pb %	Ag g/t	As ppm	Bi ppm
N	E						
<b>Mwapula Prospect</b>							
8321628	710145	0.28	<b>11.93</b>	<b>31.50</b>	<b>212.4</b>	34	595
8321630	710123	0.05	<b>1.55</b>	<b>8.33</b>	<b>115.8</b>	65	789
8321628	710145	0.04	0.15	0.72	0.8	1559	1004
8321345	709741	<b>1.40</b>	<0.01	0.01	0.05	1063	0.5
<b>Iron Cap South Prospect</b>							
8376360	702727	0.08	<b>1.58</b>	<0.01	<b>12.0</b>	10	6
8376360	702727	0.02	<b>0.95</b>	<0.01	6.6	3	2
8376349	702731	<0.01	<b>0.69</b>	<0.01	2.8	3	0.5
8376349	702731	0.07	<b>0.65</b>	<0.01	1.5	8	0.5
8376349	702731	<0.01	0.20	<0.01	0.2	7	0.5
<b>Kamona Prospect</b>							
8354066	660566	<b>3.86</b>	<b>1.02</b>	<0.01	<b>21.4</b>	80	11
8353439	662174	<b>3.26</b>	0.06	<0.01	0.6	32	206
8353458	662104	0.61	0.04	<0.01	0.2	99	6
8350022	661708	<0.01	0.16	0.02	1.1	4851	18
8350021	661713	<0.01	0.22	0.01	0.3	6435	12
8350019	661718	0.09	0.15	0.01	6.0	4483	15
8350012	661721	0.03	0.11	<0.01	7.2	2693	12

*Coordinate system Arc50 UTM Zone 35S . For Mwapula and Kamona, results reported for samples returning >0.1% copper or >0.5 g/t gold. For Iron Cap South, results reported for samples returning >0.1% copper.*

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At the **Iron Cap South** prospect from the Mulungushi project area, rock chip sampling and mapping has outlined an area of anomalous copper-silver mineralisation including **1.58% copper and 12.0 g/t silver, and 0.95% copper and 6.6 g/t silver**. The mineralisation is associated with a malachite-rich outcrop occurring within chlorite sericite schist. Further assay results are awaited.

At the **Kamona** prospect, also from the Mulungushi project area, rock chip sampling, soil sampling and mapping has outlined an area of anomalous copper-gold mineralisation, including **1.02% copper, 3.86 g/t gold and 21.4 g/t silver, and 3.26 g/t gold**. At Kamona, a number of old prospecting pits, shafts and trenches are developed along two sub parallel quartz veins that occur about 50 metres apart and contain malachite, pyrite and subordinate amounts of chalcopyrite and bornite. The workings are confined to an 800 metres wide corridor of sericite-chlorite schists trending northwest over a strike length of 2.3km, and occur in a zone separating a granite mass to the north from metasediments to the south. Gold in soil geochemical anomalies have further extended this zone for another 2.7km to the southeast. Further rock chip and soil assay results are awaited.

These new discoveries demonstrate the prospectivity of Zambezi's tenement package. The priority in these areas is to define future drill targets by carrying out geochemical sampling and geological prospecting this field season. To assist in this process, extensive high resolution helimagnetic and radiometric surveys are scheduled to commence in the December quarter.

### **GOLD PROJECTS**

At the Chakwenga Gold Project, 2007 drilling activity has comprised 2,595m in 19 RC holes. The objective of this drilling was to reduce the drill hole spacing to 40 metres between sections and to test to depths of 150 metres. In general, results have been disappointing. While numerous holes have returned anomalous intervals, these are generally in narrow zones only, and at modest grades. All results are expected by end December and once they are compiled, the structural setting of mineralisation will be reviewed in the March 2008 quarter pending a decision on further work. Based on the emergence and significance of the nearby Kangaluwi copper project, Chakwenga is likely to remain a lower priority project for the foreseeable future.

Following a review of the Company's other 100% owned gold projects, and the continuing strength of the US dollar gold price, Zambezi has elected to retain all its gold projects, and during the December quarter, will commence detailed helimagnetics and radiometric surveys at Mulungushi, Mpande, Jessie and Chumbwe East. These surveys are designed to extend Zambezi's existing high resolution geophysical coverage into these project areas, and for the first time provide vital information on the structural and lithostratigraphic framework of the projects.

Extensive geochemical sampling programs involving soil, trench and rock chip sampling are being conducted on the Mulungushi and Mpande projects in particular from the Company's exploration pipeline.

### **URANIUM PROJECTS**

During the Quarter, Zambezi signed a Letter of Intent ("LOI") with Rio Tinto over certain Uranium Mineral Rights at Mulofwe Dome.

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Under terms agreed in the Letter of Intent, Rio Tinto will commit to spend a minimum of US\$1 million to assess the Uranium mineralisation over approximately 1,250 km<sup>2</sup> of the Mulofwe prospect. Rio Tinto may elect to spend an additional US\$5 million to earn 51% of the Uranium Minerals rights, in which case the parties have agreed to form an Incorporated Joint Venture. Once Rio Tinto has earned a 51% interest in the project, Zambezi may elect to retain their 49% interest by meeting their share of expenditure or elect to dilute to 20% in which case Rio Tinto may earn an additional 29% for a total of 80% by completing a Bank Feasibility Study. Zambezi may elect to convert their interest to a 2.5% Net Smelter Royalty at any time after Rio Tinto has earned its 51% share of the project. Rio Tinto will be the manager of the exploration program and any Joint Venture entered into.

The Mulofwe project covers 3,183 km<sup>2</sup> and also contains Zambezi's Mulofwe Dome area, a priority exploration target, and parts of the Chongwe Copper Belt ("CCB") which has been joint ventured to Glencore. Only the newly discovered Mwapula prospect falls within the Rio Tinto LOI area. Mwapula has returned high grade, lead, silver and copper rock chips. Zambezi will retain rights to explore for and develop all non-Uranium minerals over this area.

During the December quarter, the Company in conjunction with Lithic Metals and Energy ("LMY", formerly Zambezi Nickel Limited) will commence detailed helimagnetics and radiometric surveys at Mulungushi, Mpande, Jessie and Chumbwe East. These surveys are designed to extend Zambezi's existing high resolution geophysical coverage into these project areas, and for the first time provide vital information on the structural and lithostratigraphic framework of the projects.

During the period, the Company further diluted its shareholding in Lithic and reduced its percentage share from 47% to 35.3% at the end of May 2007. This reduction in shareholding has meant that the results of Lithic are no longer consolidated into Zambezi.

## Independent Auditor's Review Report to the Members of Zambezi Resources Limited

### *Introduction*

We have reviewed the accompanying balance sheet of Zambezi Resources Limited as of 30 September 2007, and the related statements of income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes and the directors' declaration.

The directors of the company are responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 September 2007 and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards.



DELOITTE TOUCHE TOHMATSU



Ross Jerrard  
Partner  
Chartered Accountants  
Perth, 11 December 2007

## FINANCIAL REPORTS

Your directors submit the financial report of the Group for the half-year ended 30 September 2007.

### Directors

The Directors who have held office during or since the end of the half-year are shown below together with their holdings of ordinary fully-paid shares of £0.01 par value each, in which they have an interest, and share options:

Name	Date Appointed	Shares at 30 September 2007	Options at 30 September 2007
Brian Rear	21 May 2004	235,000	500,000 <sup>1</sup>
Julian Ford	10 May 2004	2,500,000	3,000,000
Geoffrey Johnson	10 May 2004	-	1,950,000
Jeremy Wrathall	10 May 2004	175,000	490,000 <sup>1</sup>

1. In addition Brian Rear and Jeremy Wrathall have each been granted 500,000 options exercisable at £0.20 each and expiring on 31 August 2011. These issues are subject to shareholder approval as at 30 September 2007.

### Review & Results of Operations

The net loss for the half-year ended 30 September 2007, after providing for income tax, amounted to £1,585,340 (30 September 2006: loss of £899,359).

The principal activity of the economic entity during the half-year was exploration for commercially and economically viable mineral resources in Zambia and Mozambique.

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## **Substantial Shareholders**

The share register records the following interests for shares and options for holders with more than 3% of issued share capital as at 31 October 2007.

<b>Shareholder</b>	<b>Shares</b>	<b>Percentage %</b>
Glencore Investments BV	29,162,062	15.5
Teawood Nominees Limited	17,883,300	9.5
Mellon Nominees (UK) Limited	12,550,000	6.7
BBHISL Nominees Limited	11,489,921	6.1
Goldman Sachs Securities (Nominees) Limited	10,260,000	5.5
Lehman Brothers International (Europe)	10,100,000	5.4
HSBC Custody Nominees	10,023,417	5.3
Fitel Nominees Limited	8,999,410	4.8
Chase Nominees Limited	8,381,233	4.4

**ZAMBEZI RESOURCES LIMITED ARBN 124 462 826  
AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2007**

	NOTES	<u>SIX MONTHS</u> 30 SEP 2007 £	<u>SIX MONTHS</u> 30 SEP 2006 £
Revenue		175,478	57,344
Gain on deconsolidation – Lithic Metals & Energy Limited		327,188	-
Share of losses of associates accounted for using equity method		(174,013)	-
Personnel costs		(967,717)	(316,789)
Depreciation expense		(77,608)	(66,645)
Travel costs		(140,692)	(75,372)
Consultants expense		(56,520)	(85,680)
Marketing costs		(89,641)	(91,553)
Leasing & hiring costs		(125,710)	(67,067)
Insurance costs		(55,105)	(28,485)
Legal & regulatory costs		(41,791)	(49,310)
Office administration costs		(55,887)	(65,378)
Director fees expense		(23,750)	(18,301)
Exploration expenditure written off		-	-
Other operating expenses		(320,695)	(192,846)
Loss before tax		(1,626,463)	(1,000,082)
Income tax expense		(10,836)	-
Loss after taxation for the financial period		(1,637,299)	(1,000,082)
Loss attributable to minority equity interest		(51,959)	(100,723)
Loss attributable to members of the Group		(1,585,340)	(899,359)
		(1,637,299)	(1,000,082)
Basic and diluted loss per share	4	(0.01)	(0.01)

Notes to the financial statements are included on pages 23 to 27

ZAMBEZI RESOURCES LIMITED ARBN 124 462 826  
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**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS AT 30 SEPTEMBER 2007**

	NOTES	30 SEP 2007 £	31 MAR 2007 £
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, plant and equipment		203,776	240,772
Mineral Interests	7	7,515,984	7,525,609
Investment accounted for using equity method		1,188,686	-
<b>Total non-current assets</b>		<b>8,908,446</b>	<b>7,766,381</b>
<b>Current Assets</b>			
Trade and other receivables		141,520	120,613
Prepayments		191,996	99,102
Cash and cash equivalents		9,743,046	2,175,315
<b>Total current assets</b>		<b>10,076,562</b>	<b>2,395,030</b>
<b>Total Assets</b>		<b>18,985,008</b>	<b>10,161,411</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		-	9,801
<b>Total non-current liabilities</b>		<b>-</b>	<b>9,801</b>
<b>Current Liabilities</b>			
Trade and other payables		1,507,246	385,180
Borrowings		12,344	3,704
Provisions		114,201	66,974
<b>Total current liabilities</b>		<b>1,633,791</b>	<b>455,858</b>
<b>Total liabilities</b>		<b>1,633,791</b>	<b>465,659</b>
<b>Equity</b>			
Issued capital	6	1,879,853	1,300,229
Share premium reserve	6	20,698,641	11,225,456
Options & warrants reserve		959,924	518,677
Foreign currency translation reserve		(289,042)	(147,188)
Dilution reserve		-	267,448
Accumulated loss		(5,898,159)	(4,580,267)
<b>Equity attributable to equity holders of the Parent</b>		<b>17,351,217</b>	<b>8,584,355</b>
<b>Minority interest</b>		<b>-</b>	<b>1,111,397</b>
<b>Total equity and liabilities</b>		<b>18,985,008</b>	<b>10,161,411</b>

Notes to the financial statements are included on pages 23 to 27

ZAMBEZI RESOURCES LIMITED ARBN 124 462 826  
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2007**

	NOTES	<u>SIX MONTHS</u> 30 SEP 2007 £	<u>SIX MONTHS</u> 30 SEP 2006 £
<b>Issued Capital</b>			
Opening balance		1,300,229	945,833
Issued during the period		579,624	292,857
Closing balance		1,879,853	1,238,690
<b>Share Premium Reserve</b>			
Opening balance		11,225,456	6,585,788
Premium on shares		10,057,037	3,707,143
Less capital raising costs		(583,852)	(5,936)
Closing balance		20,698,641	10,286,995
<b>Options &amp; Warrants Reserve</b>			
Opening balance		518,677	331,501
Reversal on deconsolidation of Lithic Metals & Energy Limited		(33,841)	
Options issued during the period		475,088	85,010
Closing balance		959,924	416,511
<b>Accumulated Losses</b>			
Opening balance		(4,580,267)	(2,495,432)
Reversal of dilution reserve on deconsolidation of Lithic Metals & Energy Limited		267,448	-
Loss for the period		(1,585,340)	(899,359)
Closing balance		(5,898,159)	(3,394,791)
<b>Foreign Currency Translation Reserve</b>			
Opening balance		(147,188)	(4,583)
Exchange differences arising on translation of overseas operations		(141,854)	(247,074)
Closing balance	11	(289,042)	(251,657)
<b>Dilution Reserve</b>			
Opening balance		267,448	239,094
Dilution on shareholding		-	1,714
Reversal of dilution reserve on deconsolidation of Lithic Metals & Energy Limited		(267,448)	-
Closing balance	11	-	240,808
<b>Total Equity attributable to equity holders of the Parent</b>		17,351,217	8,536,556
<b>Minority Interest</b>			
Opening balance		1,111,397	1,164,627
Changes in minority interest		(1,111,397)	(94,484)
Closing balance		-	1,070,143
<b>Total Equity</b>		17,351,217	9,606,699

Notes to the financial statements are included on pages 23 to 27

ZAMBEZI RESOURCES LIMITED ARBN 124 462 826  
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**CONDENSED CONSOLIDATED CASHFLOW STATEMENT  
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2007**

	<u>SIX MONTHS</u> 30 SEP 2007	<u>SIX MONTHS</u> 31 SEP 2006
	£	£
<b>Net cash utilised by operating activities</b>	(1,671,358)	(955,990)
<b>Cash flows from investing activities</b>		
Payments for mineral interests	(3,747,097)	(1,772,798)
Purchase of property, plant and equipment	(74,260)	(57,626)
Proceeds from sale of property, plant and equipment	-	5,457
Net cash utilised by investing activities	(3,821,357)	(1,824,967)
<b>Cash flows from financing activities</b>		
Net proceeds from issue of share capital	10,052,809	3,995,781
Repayment of borrowings	(1,161)	-
Joint Venture Partner contributions	3,008,798	-
Net cash generated from financing activities	13,060,446	3,995,781
<b>Net increase/(decrease) in cash and cash equivalents</b>	7,567,731	1,214,824
<b>Cash and Cash equivalents at beginning of period</b>	2,175,315	3,187,747
<b>Cash and cash equivalents at the end of period</b>	9,743,046	4,402,571

Notes to the financial statements are included on pages 23 to 27

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2007**

**1. Basis of preparation**

The condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard IAS 34, *Interim Financial Reporting*.

**2. Significant accounting policies**

Zambezi Resources Limited is a company registered and domiciled in Bermuda. The condensed financial statements have been prepared under the historical cost convention.

The same accounting policies and methods of computation are followed in these condensed financial statements as compared with the most recent annual financial statements for the year ended 31 March 2007, except for the accounting for Zambezi Nickel Limited (Zambezi Nickel Limited changed its name to Lithic Metals and Energy Limited on 15 September 2007, and will be referred to as such hereafter in these financial statements) which is now accounted for under the equity method as compared to the consolidated method.

**3. Segmental Information**

The economic entity operates predominately in one business and geographical segment, being exploration for minerals in sub-Saharan Africa, namely Zambia and Mozambique.

**4. Loss Per Share**

The calculation of the basic and diluted loss per share is based on the following information:

<b>EARNINGS</b>	<u>SIX MONTHS</u> 30 SEP 2007	<u>SIX MONTHS</u> 30 SEP 2006
	<b>£</b>	<b>£</b>
Earnings for the purpose of basic and diluted loss per share (loss for the period attributed to equity holders of the Parent)	(1,585,340)	(899,359)

<b>SHARES</b>	<u>SIX MONTHS</u> 30 SEP 2007	<u>SIX MONTHS</u> 30 SEP 2006
	<b>£</b>	<b>£</b>
Basic weighted average number of ordinary shares on issue	168,337,402	105,242,975
Basic loss per share	(0.01)	(0.01)

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares:

Warrants	-	1,900,000
Staff & director options	10,600,000	5,750,000
	10,600,000	7,650,000

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2007 – CONTINUED**

**5. Dividends**

No dividends were paid or proposed during the financial period.

**6. Issued Capital**

Authorised 500 million ordinary shares of par £0.01 each, carrying one vote per share and rights to dividends.

	NUMBER OF SHARES	ISSUED CAPITAL £	SHARE PREMIUM £
<b>Issued and fully paid ordinary shares</b>			
As at 1 April 2007	130,022,896	1,300,229	11,225,456
<b>Allotments</b>			
10 April 2007 – 18 pence per share	21,649,050	216,491	3,680,338
3 July 2007 – 19.1 pence per share	33,333,333	333,333	6,025,299
9 July 2007 – 14 pence per share	1,000,000	10,000	130,000
9 July 2007 – 16.5 pence per share	80,000	800	12,400
12 July 2007 – 12 pence per share	1,900,000	19,000	209,000
Costs associated with raising equity			(583,852)
<b>Balances as at 30 September 2007</b>	<b>187,985,279</b>	<b>1,879,853</b>	<b>20,698,641</b>

**7. Mineral Interests**

	30 SEP 2007 £	31 MAR 2007 £
<b>Non current</b>		
Deferred costs carried forward in respect of areas of interest in the exploration and evaluation phase	10,524,782	7,525,609
Joint Venture partner contributions	(3,008,798)	-
	<b>7,515,984</b>	<b>7,525,609</b>

The Joint Venture partner contributions records the contributions made by the Company's Joint Venture partner, Glencore International AG (Glencore), towards fulfilling their minimum spend requirements to earn 51 percent in the two Joint Ventures under the Cheowa and CCB Farmin and Exploration Joint Venture Agreements dated 9 February 2007.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2007 – CONTINUED**

**8. Contingencies and commitments**

There are no known contingent liabilities at 30 September 2007 and there have been no changes in contingent liabilities or contingent assets since the last annual reporting date.

Operating leases: non-cancellable lease rentals are payable as follows:

	30 SEP 2007 £	31 MAR 2007 £
Less than one year:	110,269	83,014
Between one and five years:	92,114	53,587
Over five years:	-	-
	202,383	136,601

The Group leases its Zambian Office under an operating lease. The current lease on the office runs for a period of one and a half years with an option to renew after this date. Lease payments are fixed for the duration of the lease.

The Group leases three residential properties in Lusaka, Zambia to accommodate the Country Manager, Exploration Manager and Joint Venture Manager. The current leases on these properties run for a period of four months, nine months and nine months, respectively.

The Group leases two warehouses in Lusaka under two separate operating leases. The current leases on both warehouses run for a period of five months.

The Group leases its Australia offices under an operating lease. Previously the offices had been leased under two separate operating leases but these were amalgamated during the half-year period. The current lease runs for a two and a half year period with an option to renew for an additional three year period. Lease payments are reviewed annually to reflect market rentals; during the half-year period such an adjustment was made.

Novated leases: lease rentals are payable as follows:

	30 SEP 2007 £	31 MAR 2007 £
Less than one year:	4,084	4,213
Between one and five years:	-	1,756
Over five years:	-	-
	4,084	5,969

The Group leases a motor vehicle in Australia for the use of its Managing Director under a novated lease which runs for a further period of eleven months.

During the half-year ended 30 September 2007 £56,550 was recognised as an expense in the income statement in respect of leases.

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2007 – CONTINUED**

### **9. Post-balance sheet events**

Since 30 September 2007 no item, transaction or event of a material and unusual nature has arisen that is likely, in the opinion of the Directors, to affect significantly the operations of the economic entity, the results of these operations, or the state of affairs of the entity, in future financial periods other than the following:

- On 17 October 2007, the Company issued and allotted 200,000 Ordinary shares following the exercise of options. Following the issue of these shares, the issued share capital of the Company is 188,185,279 Ordinary Shares.
- On 26 October 2007 the 35.3% owned associate, Lithic Metals and Energy Limited (Lithic), agreed to acquire the entire issued share capital of RRCC Limited, 90% owner of 19 granted mineral exploration licences in Togo (the government of Togo holding the balance). The consideration set out under agreement is £1 million, to be satisfied by the issue of 15,384,615 ordinary shares of 1p each in the share capital of Lithic at a price of 6.5p per share and a further cash payment of US\$375,000, paid in quarterly instalments. The agreement is subject to standard conditions precedent which includes the successful completion of due diligence, the hand over of key documents and the final approval of Lithic's Board.
- Jeremy Wrathall, non-executive director of the Company, resigned as non-executive chairman of Lithic Metals and Energy Limited on 29 October 2007. His replacement, Iain Rawlinson, appointed on the same day, is independent to the Company's board.
- On 13 November 2007, the associate Lithic Metals and Energy Limited announced it had raised £4,000,000 through the placement of 61,538,462 ordinary shares at a price of 6.5p. Together with the issue of shares to RRCC Limited detailed above, this issue of shares reduces Zambezi Resources Limited's holding in Lithic to 17.5 percent.

### **10. Related party transactions**

On 21 May 2007, Zambezi Resources Limited, the Company, entered into a Heads of Agreement with Lithic Metals and Energy Limited (Lithic) (formerly Zambezi Nickel Limited) to enter into a Joint Venture under which Lithic can earn an equity interest in the Company's subsidiaries controlling uranium rights over four Zambian Prospecting Licences.

On 21 May 2007, Lithic completed a placement of 40,000,000 Ordinary Shares at a price of 5 pence per share to raise £2,000,000 gross proceeds, in which the Company received 10,000,000 shares, thus diluting its holding from 47 percent to 35.3 percent. Although holding the majority of the Board to 29 October 2007, it is the opinion of the Directors that the Company no longer exerts control over Lithic from the date of dilution and hence it has been deconsolidated.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2007 – CONTINUED**

**11. Prior period adjustments**

The Dilution Reserve as at 31 March 2007 was understated as a result of an incorrect calculation. An adjustment has been applied to the financial statements year ended 31 March 2007.

The aggregate effect of this adjustment is as follows:

<b>CONSOLIDATED</b>	Previously Stated 31 MAR 2007	Adjustment 31 MAR 2007	Restated 31 MAR 2007
	£	£	£
<b>Balance Sheet</b>			
Dilution Reserve	46,100	221,348	267,448
Accumulated Losses	(4,358,919)	(221,348)	(4,580,267)

There is no impact on basic and diluted earnings per share for this period.

An amount relating to exchange losses on translation of overseas operations was incorrectly processed through the income statement for the half year ended 31 September 2006 rather than the Foreign Currency Translation Reserve. This has been adjusted in the financial statements for the half year ended 30 September 2006, the aggregate effect of which is as follows:

<b>CONSOLIDATED</b>	Previously Stated 30 SEP 2006	Adjustment 30 SEP 2006	Restated 30 SEP 2006
	£	£	£
<b>Income Statement</b>			
Other Operating Expenses	(396,706)	203,860	(192,846)
<b>Balance Sheet</b>			
Foreign Currency Translation Reserve	(47,797)	(203,860)	(251,657)
<b>Statement of Changes in Equity</b>			
Foreign Currency Translation Reserve – exchange differences arising on translation of overseas operations	(43,214)	(203,860)	(247,074)
Accumulated Losses – loss for period	(1,103,219)	203,860	(899,359)

There is no impact on the disclosed basic and diluted earnings per share for this period due to the rounding of such amounts to two decimal places.

**12. Approval of Interim Financial Statements**

The interim financial statements were approved by the board of directors on 11 December 2007.

## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes as set out on pages 17 to 27:
  - (a) Comply with Accounting Standard IAS 34: Interim Financial Reporting; and
  - (b) Give a true and fair view of the economic entity's financial position as at 30 September 2007 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Julian Ford  
Director

11 December 2007