ZAMBEZI RESOURCES LIMITED

ARBN 124 462 826

2009 ANNUAL REPORT

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CHAIRMAN'S REVIEW

The year ending March 2009 has been an exceptionally tough year for Zambezi and indeed for the majority of those in the resource sector, especially copper. Zambezi has only been able to survive the year as a result of the goodwill shown by both staff and creditors who have shown exceptional loyalty to extend payment terms to allow the company to continue trading while a rescue plan was put in place. In addition, the Zambian Department of Mines and Mineral Development has been generous in allowing the company to retain its tenement position in Zambia and renew all licences despite the company's financial difficulties. The Directors would like to thank their stakeholders for the goodwill shown which has allowed Zambezi to survive the current turmoils and thus position itself to retrieve value for shareholders when conditions improve.

While 2008 started well with record copper prices, for Zambezi the year started with uncertainty as a result of the change in the legislative environment in Zambia as a result of the new mining laws and taxes passed in April 2008. The sovereign risk uncertainty resulted in the termination of joint venture negotiations in early June 2008. Zambezi had been in negotiations for a substantial Copper Joint venture at Kangaluwi for over 8 months. As a consequence of the failure of the JV negotiations, the Company sought to raise capital through a rights issue which was targeted to maintain the company's exploration momentum and exploration capacity. However the second half of 2008 saw the collapse of the copper price, the death of Zambia's President while in office and the continued deterioration of the global financial environment. These events forced Zambezi into a total strategic rethink that saw the survival of the company as the priority.

As a result the company curtailed all exploration activity in July, save for completion of the drilling activity on foot at the Kangaluwi project through the support of the service providers involved for which we sincerely thank them. Following the limited response of the rights issue in September 2008 your board implemented a stringent survival plan and sought funding through a variety of means including joint ventures and equity. The company suspended its trading on both the ASX and AIM in early November. The Directors reviewed the carrying value of the exploration assets for the half year September 2008 and wrote down all of the assets except for Kangaluwi. An additional 50% write down of the Kangaluwi asset to US$4 million was again made for the year ending March 2009.

A rescue plan to recapitalise the company and raise additional capital was frustrated on two occasions when two counter parties, Astron Limited and then Clarity Capital, failed to meet their obligations under the agreed terms. The company has reserved its rights in both cases and will be taking appropriate advice in relation to those parties. The company concluded a debt for equity swap with the standstill creditors in June 2009, and on behalf of the board I want to record our thanks to them for supporting the company at this difficult time. A converting note agreement was concluded with LinQ Capital in July 2009 that will see the company stabilised financially and I look forward to setting a new course for Zambezi in the coming months.

I wish to personally thank our Managing Director Julian Ford, who has worked tirelessly and all of his team, both here in Australia and in Zambia, for the manner in which they have conducted themselves during this very difficult period in the company's history.

Brian Rear

Chairman

MANAGING DIRECTORS REVIEW

The reporting year under review has been an arduous one for all and no more so than in the base metals sector. The first quarter of the year saw planned exploration activity based around progressing existing and potential joint venture targets. Sadly however, the majority of the year was focused on surviving the “credit crunch” and its effect on capital markets.

The copper windfall taxes introduced in Zambia in April 2008 severely impacted on the Company’s ability to conclude a copper joint venture agreement in the first half of the year. The Company’s inability to successfully raise sufficient capital resulted in a major strategic review and substantial reduction in drilling activities from August 2008 onwards. In mid September 2008, the last drill rig was demobilized from the Kangaluwi Project. The untimely introduction of windfall taxes was reversed in the 2009 budget but not before the damage had been done.

The collapse of the copper price added to the already exceptionally difficult financial environment. A rights issue to raise up to approximately AUD$4,100,000 was announced on 31 July 2008 to existing shareholders on the basis of one new share for every 5.7 held, together with one new option for every 3 shares issued. The offer closed on 1 September 2008 and, including placement of the shortfall, raised approximately AUD$1.21 million.

To bolster operational funds a mandate for the sale of Zambezi’s shareholding in Lithic Metals and Energy Ltd (AIM : LMY) was given which unfortunately coincided with a great deal of market uncertainty and volatility in UK capital markets. As a result, the shares were ultimately realised for a tenth of their market value at the time the mandate was given.

Jeremy Wrathall resigned from the Board of Directors on 17 October 2008. Mr Wrathall had been with the Company since its admission to the AIM market of the London Stock Exchange in 2004. Geoffrey Johnson also resigned as Executive Director but remains on the board as a non executive director. Zambezi was suspended from trading on the Australian Securities Exchange (ASX) on 31 October 2008 and from the AIM market of the London Stock Exchange (AIM) on 3 November 2008. Zambezi gave notice of its intention to delist from AIM on 29th May 2009 after more than 6 months of being suspended and will look to return to trading on the ASX towards the end of July 2009.

Standstill arrangements with creditors provided the Company the ability to conclude a recapitalisation agreement with Astron Limited (ASX:ATR) but as a result of non performance by Astron Limited the viability of the Company was again threatened.

The prognosis for Kangaluwi remains very good and the drill testing of mineralization along the 28 km of identified strike length indicates that this project is likely to progress towards development.

Glencore International AG (“Glencore”) has completed its 51% earn in of the Cheowa project prior to the end of 2008. Glencore and Zambezi have combined the Cheowa and CCB Joint Ventures (“JVs”) and have moved the combined JV into an incorporated JV structure.

As a result of the considerable softening of raw material prices during the year Rio Tinto announced that it would be terminating exploration ventures on a worldwide basis, which included Zambezi. Rio Tinto gave notice to Zambezi in March 2009 of its intention to withdraw from the Mulofwe uranium project. Good progress continues to be made by Zambezi’s other JV uranium partner, Lithic Metals and Energy.

The Company continues to review opportunities to secure near term cash flow which may include the sale of some of the company’s more prospective investments and to utilize these proceeds to allow the Company to ride out the downturn and be well situated to take advantage of any recovery that eventuates.

Significantly, I believe it is worth reporting that of the companies affected, Zambezi is the only company that has complied with the changes in the new Zambian Mines Act that requires that a maximum area of 5000km2 be held under tenements by any one company. Zambezi has completed the 50% reduction of its tenements as required by Zambian law.

The Company today bears very little resemblance to that of the Company a year ago. I am confident however, that not only will the Company survive but once again will be in a position to progress its projects and procure new ones.

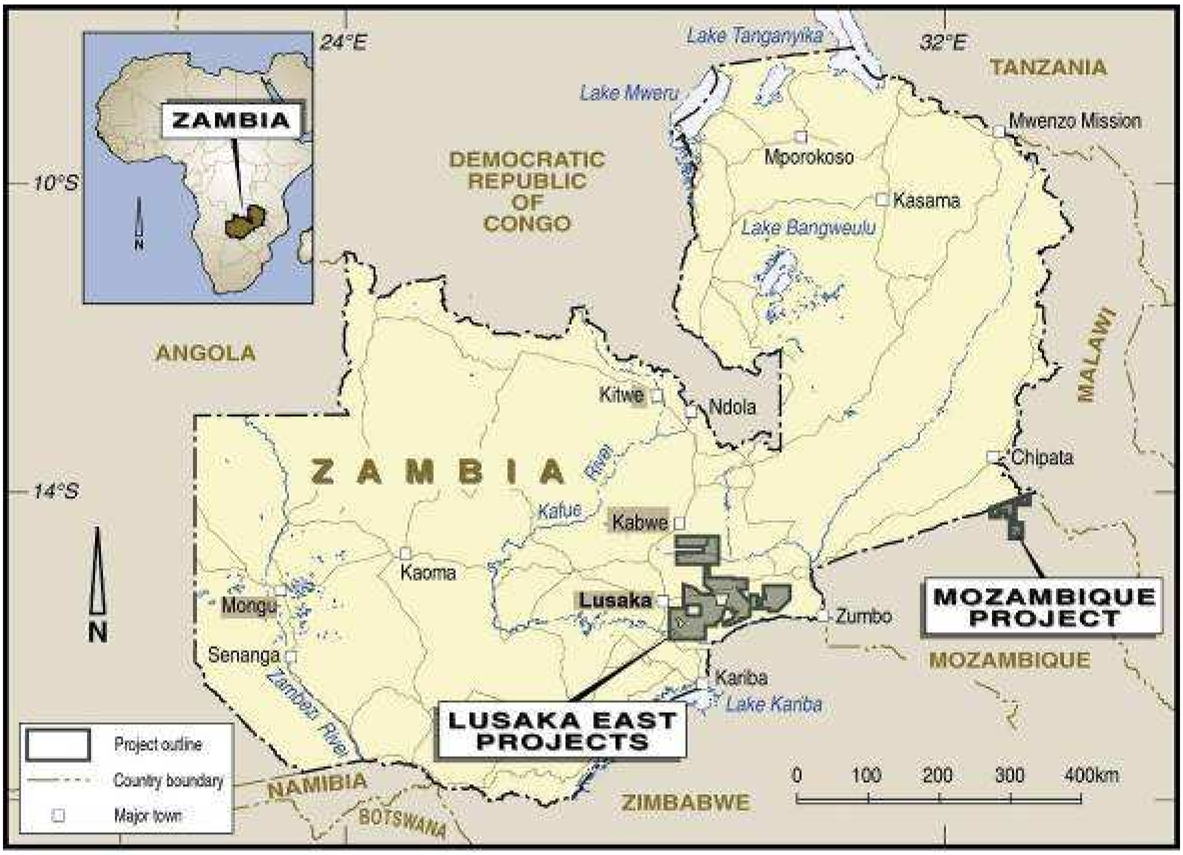

Figure 1: Project Location Plan

Operations Review

In its fourth full year of exploration during the 2008 field season, Zambezi significantly ramped up its exploration activities in early 2008 only to suspend operations on 31 July and finally cease exploration activities at the end of September following a major shortfall in the rights issue.

Zambezi carried out 51,577m of combined RC and diamond drilling in the 2008 field season, while no drilling was completed in 2009. To date, Zambezi has covered approximately 65% of its tenement portfolio with a combination of high resolution helimagnetics, VTEM and ground IP surveys over selected regional and detailed target areas. While the company's grass roots exploration activities have been successful in generating and drilling multiple IOCGU targets, the risk and costs associated with this exploration activity are unlikely to attract either equity or joint venture funding to the same extent in the future. The company will thus carry out a significant strategic review once the company's financial survival has been secured.

Zambezi maintains two joint ventures, one with Lithic Metals and Energy Ltd ("Lithic") and the other with Glencore International AG of Switzerland ("Glencore"). Glencore met its expenditure commitment of US$16 million in Q4 2008 to earn an initial 51% interest in the Cheowa Copper Project. A Shareholders Agreement to convert the joint venture into an Incorporated Joint Venture was completed between Zambezi and Glencore in December 2008. Glencore now own 51% and Zambezi 49% of Cape Resources Ltd, a Bermudan registered company that owns the assets of the two former joint ventures for the Chongwe Copperbelt (CCB)/Chalimbana and Cheowa projects.

Zambezi maintains 49% of the Lithic Uranium joint venture through its holding in Chalimbana Resources Ltd with Lithic holding the remaining 51%. The joint venture covers the previously named Mulungushi, Chumbwe, Mpande and Rufunsa licences. Due to restructuring of Zambezi's tenement portfolio several new licences have been applied for and granted to Chalimbana Resources alongside the remaining tenure. Lithic has focused its exploration on the Mpande and Chumbwe Licenses with significant success in discovering new zones of uranium mineralisation. Exploration has consisted of systematic follow up with mapping, trenching, and rock chipping of radiometric anomalies identified in 2006 and 2007 through the use of high resolution airborne geophysical surveys. Zambezi retains a 100% interest in the base metals and precious metals for these projects through their original JV agreement.

Zambezi received notice on 9 March 2009 from Rio Tinto Mining and Exploration ("Rio") that it was withdrawing from the Mulofwe Uranium Joint Venture in Zambia. The full potential of the Nkala Hill Project on the Mulofwe License remains untested and will be a major priority once field work re-commences.

Cheowa Copper-Gold Project (Glencore JV, Glencore 51%)

- Glencore earned 51% of the Cheowa Copper Gold project by spending US $16 million.
- 18,892m Diamond drilling completed in 2008.
- CCB/Chalimbana and Cheowa joint ventures incorporated into a single incorporated JV.
- Significant increase in resource tonnes from previous year. The CC2 JORC-compliant resource now stands at 6.23mt of 1.09% Copper and 0.3g/t Gold over a strike length of 1.7km.
- Mineralisation remains open down dip, down plunge and along strike.

Diamond drilling was completed at the Cheowa Project in July 2008 with a total of 18,892m being drilled for the year at CC2. Drill spacing along the strike length of CC2 was maintained at 50m centres to aid the conversion of the existing inferred resource to a JORC-compliant indicated category. The current resource is tabulated in Table 1. The majority of drilling was aimed at testing the deeper zones of the mineralised system, specifically the 200-400m and 400-600m depth panels concentrating on the CC2 Zone (Figure 2). The deeper drilling confirmed that the mineralised system is predictable and continuous at depth with the same copper-gold tenor as seen at shallower depths. The increase from the previously reported 2.9mt at 1.05% copper to 6.23mt at 1.09% copper has come from the depth and strike extensions drill tested in _ _ _ _. Drilling extended the known strike length of the ore body from 1.2km to 1.7km and to a depth of 400m.

The prefeasibility study originally scheduled for completion on the project in third quarter was suspended following the collapse of the copper price and the new copper royalty taxes passed into legislation in early 2008.

In December 2008, Zambezi and Glencore agreed to combine the Cheowa and CCB JV into a single incorporated JV.

Table 1: October 2008 Cheowa Resource Estimate Summary

	Tonnes	Cu %	Copper (t)	Au (g/t)	Metal (oz)
CC2 Indicated Resource	6,028,000	1.09	66,000	0.30	58,000
CC2 Inferred Resource	203,000	1.09	2,000	0.30	2,000
Total Cheowa	**6,231,000**	**1.09**	**68,000**	**0.30**	**60,000**

*At a lower cut of 0.3% copper; and a top cut of 7.3% copper; ** reported within the comparable Copper volume and top cut of 2.3g/t gold

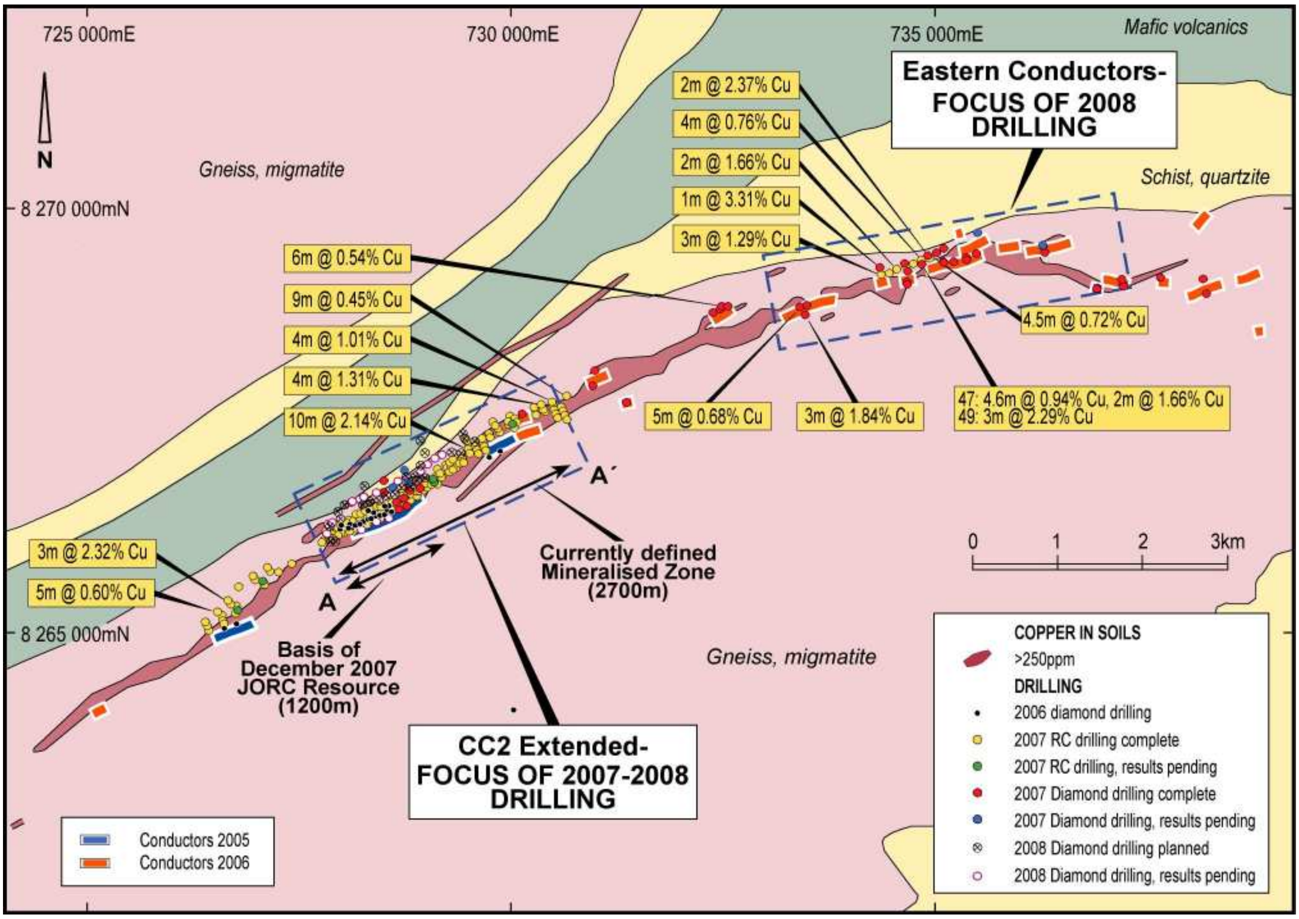

Figure 2: Cheowa Copper-Gold Project, showing RC and Diamond Drillhole Results and Conductor Locations

Kangaluwi Copper Project (100% Zambezi owned)

- 28,829m of RC and Diamond drilling completed in 2008 - 2009.
- Drilling focused on the Kangaluwi and Chisawa prospects with two new prospects (Imboo and Kalulu) being tested, for the first time. Kangaluwi was drilled on 50 x 50m hole spacing.
- Significant new zones of mineralisation drill tested over 4.1km of strike and 150m vertical depth from surface at Chisawa returning encouraging results including; 12m at 1.36% copper,18m at 1.35% copper and 14m at 1.52% copper. Multiple, visually identified mineralised zones remain to be assayed and will be completed in Q3 2009.
- Deeper drilling at the Kangaluwi prospect continues to confirm down dip continuity and tenor of mineralisation, returning significant results including 5m at 1.35% copper from 125m and 4m at 2.66% copper from 134m from the same zone and 13m at 2.36% copper from 158m.
- Shallower RC drilling results from Kangaluwi include 5m at 1.45% copper and 9m at 1.79% copper. Multiple visually identified mineralised zones, some in excess of 40m downhole length, remain to be assayed.
- Mineralisation remains open along strike and at depth at both Kangaluwi and Chisawa.
- Approximately 8km of a total 28km of geochemically anomalous, prospective strike length now tested.
- Initial metallurgical test work indicates favourable ore characteristics with low Bond and Rod mill work indices and metal recoveries in excess of 95% with no deleterious elements identified.

The Kangaluwi Copper Project is the next most advanced exploration project after Cheowa (Figure 3). The project was discovered by geological prospecting and soil geochemical sampling, and generated excellent first pass drilling results during late 2006. To date 28km of anomalous copper in soils at greater than 250ppm Cu have been identified at the Kangaluwi Copper Project. The results of this geochemical soil sampling identified four significant copper prospects, Kangaluwi, Chisawa, Kalulu and Imboo (Figure 3).

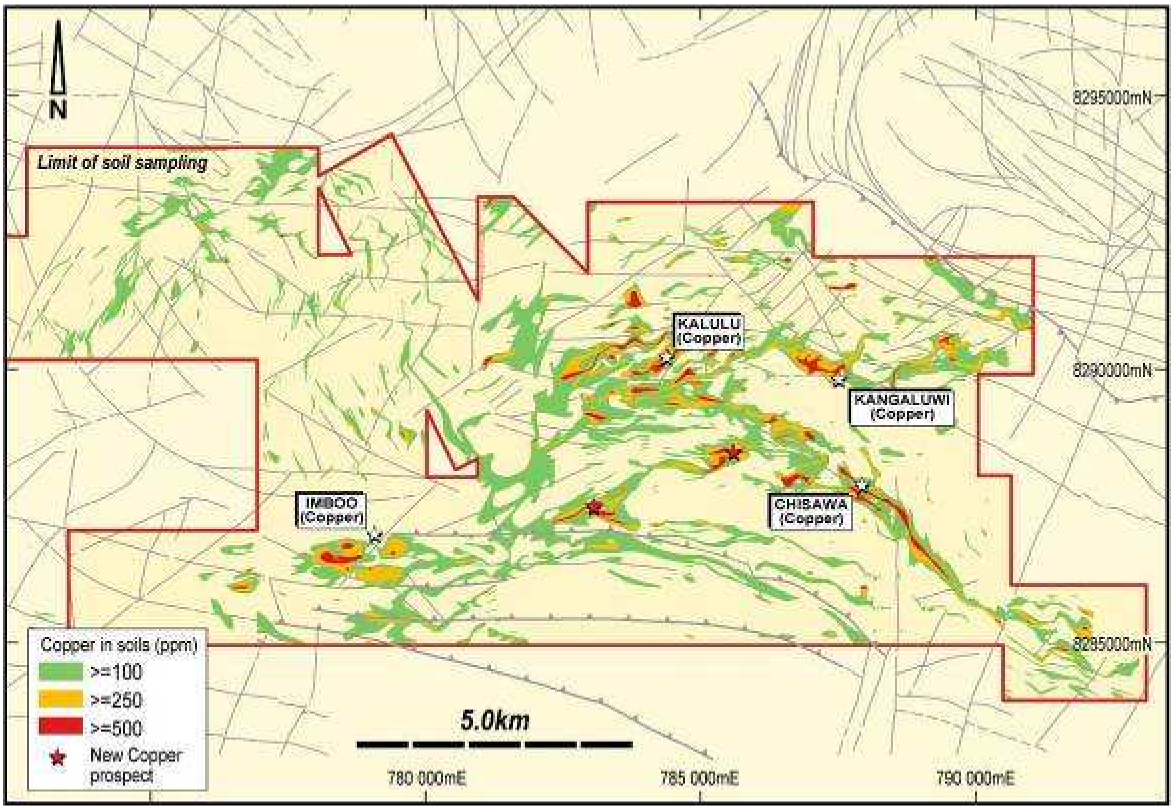

Figure 3: Kangaluwi Copper Project locations and regional copper in soil geochemical anomalies

During 2006 and 2007, drilling was completed at Kangaluwi and Chisawa, targeting anomalous copper-in-soil geochemical anomalies coincident with surface outcrop of malachite-bearing metasediments and pegmatite's. In 2007, the Company completed approximately 20,000m of resource drilling, which was successful in extending the limits of known mineralisation. Excellent results were returned, including 21m at 1.88% copper, 25m at 1.34% copper, 16m at 1.95% copper and 14m at 1.13% copper. This was the first systematic drill programme carried out in the area. The drilling only partially tested an 800m strike length at Kangaluwi, and a very broadly drill spaced 3,600m strike length at Chisawa.

During 2008 28,829m of combined RC and diamond drilling was completed within the Kangaluwi Copper Project including Kangaluwi (10,561m RC; 5,414m DD), Chisawa (9,934m RC), Imboo (360m RC) and Kalulu (2,560m RC).

RC and diamond drilling at the Kangaluwi Prospect initially focused on a core zone of 800m strike at 50 x 50m spacing with broader spaced drilling testing a strike extent of 1.7km and from surface to 200m depth panel (Figure 4). Further mineralisation was identified at depths greater than 200m, and remains open at depth. At the time of writing assay results were still pending for 18 diamond holes and 19 RC holes. The outstanding diamond holes tested the deeper extent of mineralisation predominantly between 200-350m. Visual identification of strong mineralisation in excess of 30m and 50m down hole length from 222m and 206m respectively remain to be assayed . Significant results returned from the 2008 drilling campaign include; 5m at 1.35% copper from 125m and 4m at 2.66% copper from 134m from the same zone and 13m at 2.36% copper from 158m.

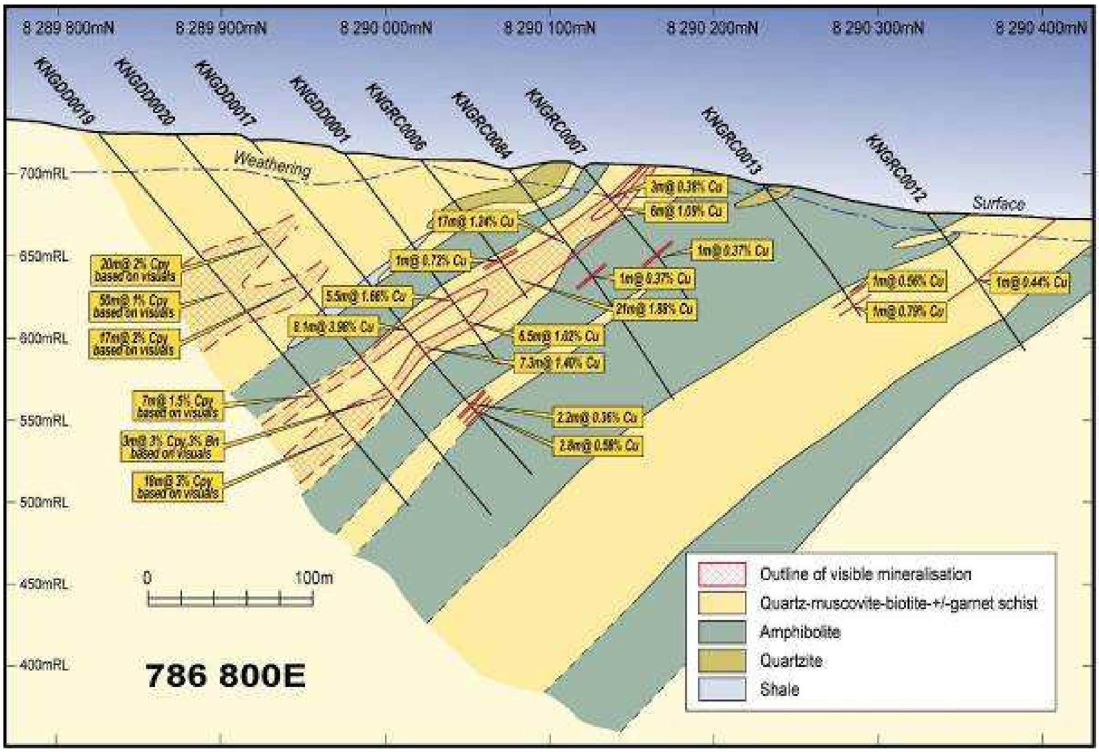

Figure 4: Kangaluwi Drill Cross Section 786 800E.

The host rocks at the Kangaluwi Prospect consist of sheared and brecciated metasediments and metavolcanics of the Proterozoic-aged Muva group with a north west to south east strike. Mineralisation dips moderately to the south west at approximately 30 - 400 and occurs within the sheared northern limb of an overturned ESE-plunging regional synformal fold. Mineralisation at Kangaluwi consists of chalcopyrite, bornite, malachite and azurite with chalcopyrite being the dominant ore mineral in fresh rock at depth occurring as disseminated to massive aggregates associated with moderate brecciation, veining and shearing. Increasing amounts of bornite are present at depth. Traces of chalcocite have been identified in petrographic studies and tentatively identified from outcrop. Mineralised zones average approximately 10m in thickness, with broader zones of up to 30m plus in true thickness. A schematic cross section is shown in Figure 4. The interpretation of mineralisation suggests potential for multiple mineralised zones which broaden at depth and tend to demonstrate increasing grade which may be attributable to increases in bornite.

Preliminary metallurgical test work on composite 2007 drill core from Kangaluwi has indicated favourable metallurgical characteristics. The ore is relatively soft with a Bond Mill Work Index of 11.5 kWhr/t, and a Rod Mill Work Index of 8.9 kWhr/t. This is based on a single composite test. The first rougher flotation test showed recoveries in excess of 95% copper and silver which are the only metals expected to be of economic value for the Kangaluwi Project.

The ***Chisawa Prospect*** is located 2.5km south of Kangaluwi prospect (Figure 3). To date 11,639m of RC drilling has been completed over the Chisawa trend, testing approximately 5km of the 7.2km soil geochemistry anomaly. Drill density is at 200m x 100m spacing and tests to 150m vertical depth over 4.1km of strike in the central portion of the prospect. Forty drill holes remain to be assayed from the Chisawa prospect.

Mineralisation at Chisawa consists of chalcopyrite, bornite, malachite, azurite and minor secondary chrysocolla in the oxide zone. The host sequence consists of sheared metasediments, metavolcanics and a late stage conformable coarse grained pegmatite which strike in a north west to south easterly direction. Mineralisation is hosted within strongly foliated garnet-biotite-muscovite schist and feldspar-quartz-muscovite-kyanite pegmatite and outcrops at surface. Mineralisation dips moderately to the south west at approximately 30 - 40^0 and occurs within the sheared southern limb of an overturned ESE-plunging regional synformal fold. The mineralisation at the Kangaluwi Prospect occupies the northern limb of the same fold structure. Significant intersections from the 2008 drilling at Chisawa include; 18m at 1.3% copper from 48m, 12m at 1.36% copper from 122m, 10m at 1.23% from 64m, 14m at 1.52% copper from 85m.. These results confirm the tenor of mineralisation returned from 2006 drilling which included 30m at 1.2% from 12m. Evidence to date suggests that the Chisawa Prospect has the potential to provide a significantly larger resource at higher grade than the current mineralised system identified at the Kangaluwi Prospect. Mineralisation at Chisawa is still open down dip, along strike and down plunge.

The ***Kalulu Prospect*** is situated 2km west of Kangaluwi (Figure 3) and located in the closure of the regional synformal fold hosting both the Kangaluwi and Chisawa Prospects mineralisation. There are numerous copper shows consisting of malachite-azurite-chrysocolla in quartz-biotite schist outcrops along the Kalulu trend which correlate with soil geochemistry. During 2008, 2,560m of RC were drilled over the prospect on 200m spacing. RC drilling intersected significant visual mineralisation consisting of chalcopyrite and bornite, although drill samples have yet to be assayed, due to financial constraints in late 2008. Further significant soil geochemistry anomalies >500ppm Cu are yet to be tested.

The ***Imboo Prospect*** is located 8km west of Kangaluwi (Figure 3) and is dominated by mafic metavolcanics and intercalated metasediments. Four RC holes totalling 360m have been drilled on the prospect in 2008. These holes covered a total strike length of 1km whilst the soil geochemistry >250ppm Cu contour extends over 2km. The visual intercepts have been predominantly of pyrrhotite and pyrite with occasional 4 to 5m wide zones of 1% disseminated chalcopyrite. Drilling only tested down to 100m vertical depth and all four RC holes remain to be assayed.

Other Projects

Mulofwe Copper Gold Project (100% Zambezi owned)

In mid 2008, the Company completed a major regional VTEM survey at Mulofwe. A total of 1,600 line kms was flown at a line spacing of 150m, and an outstanding late time electrical conductor was defined at Mulofwe. Interpretation of preliminary data suggested the presence of a shallow dipping conductor in an area of sparse outcrop, with a core zone of some 3 square km in area. Three diamond holes were drilled to test the large scale VTEM geophysical anomaly. No significant copper or gold assays were returned. Broad zones of weakly elevated Zn, Ag, W and U were however intersected in the drilling. The presence of the VTEM anomaly is due to thin horizons of graphitic shale with weakly disseminated pyrite.

Mpande Copper Gold Project PL's 13093, 13094, (49% Zambezi) and PL 220 (100% Zambezi)

Zambezi retains 100% of the base metals and precious metals rights to the Mpande Dome tenements through its Lithic JV. Over the past three years, Zambezi has generated a number of very promising Copper/Gold prospects, namely Mukwize, Sinakaleya and Sashibondwe.

Rock chip sampling at the Mukwize prospect carried out in 2007 returned values of up to 11.4% copper and 1.8 g/t gold, 4.8% copper and 0.4 g/t gold, and 4.0% copper and 0.9 g/t gold. Malachite, azurite, chalcopyrite and bornite have been identified at surface within an intensely fractured and brecciated assemblage of ferruginous altered carbonate, calc-silicate and amphibole schist lithologies. Work in 2008 included collecting regional soil geochemical samples on a 400 x 100m pattern. The program was designed to extend existing anomalies at Mvula and Mkwizi. 384 samples were collected and results are still pending.

A new prospect, ***Sinakaleya*** has been located as a result of this sampling program and consists of extensive malachite stained gossans with haematitic alteration in the form of specularite. Results from a Niton hand-held XRF used while mapping recorded copper values above 2.3% and averaging 1.2% Cu. Importantly, visible gold has been panned from the gossanous outcrops. Results returned from laboratory analysis include; 2.35% copper and 1.08gt gold. The gossans extend for 600m in strike and average 4.5m in width. As work progressed in 2008 more gossanous outcrops were discovered revealing another significant copper prospect.

Regional prospecting has also identified another copper prospect at ***Sachibondwe*****.** The Sachibondwe Prospect consists of an elongate malachite and azurite stained ridge extending for 800m, with minor historic workings. Mineralisation is hosted in a brecciated rhyolite with the breccia matrix consisting of malachite, azurite, specularite and quartz. Copper mineralisation is also disseminated within the rhyolite host rock. Results from a Niton hand-held XRF used while mapping show copper values in excess of 10% copper from the malachite stained rhyolite host lithology with a maximum of 14.51% Cu recorded by the Niton XRF. Results returned from laboratory analysis include 16.2% copper and 0.27gt gold.

Uranium Joint Ventures

Rio JV

The Nkala Uranium Prospect was discovered by Zambezi during a radiometric survey and subsequent trenching in late 2006 and early 2007. Rio entered into the joint venture with the intention of generating and drill testing targets for uranium mineralisation. In 2008 Rio completed a detailed exploration program consisting of airborne VTEM, surface mapping, spectral mapping, rock chipping, trenching, SEM characterisation of selected minerals and whole-rock analysis of selected samples. The work carried out by Rio defined a ~30m wide zone of chlorite-kaolinite-halloysite alteration adjacent to the area of elevated uranium assays which were found to contain very fine U-silicate inclusions. Rio defined planned drill holes to test the postulated existence of enriched Uranium below the oxide zone, contained within the 20km long VTEM target. However Rio were forced to abandon the drill program in late 2008 and later withdraw from the JV in early 2009 as a result of their cut back in the global exploration budget. It is Zambezi's intention to drill these targets when the Company has secured its financial position.

Lithic JV

Lithic Metals and Energy ("Lithic") through their subsidiary company Chalimbana Resources Ltd (Zambezi 49%) are the project managers of the Joint Venture. Lithic are spending US$5 million to earn a 51% interest in the Uranium rights and so far have expended IS$3.3 million.

During the financial year, Lithic flew 36,000 line km of airborne geophysical surveys were completed over three of the four licences, two drilling campaigns were completed over known uranium anomalies and several high priority uranium targets were generated, trenched and two projects drilled. Field work was concentrated on the Mpande and Chumbwe licences.

Oryx: A diamond drilling program at the Oryx project on the Chumbwe licence resulted in 14 diamond drill holes for a total of 1,596m. Significant intersections from the diamond drilling include; 0.6m at 434ppm U_3O_8 from 77m, 0.79m at 463ppm U_3O_8 from 46.7m and 0.36m at 425 U_3O_8 from 71.6m. The drill program was targeted at intersecting fault controlled mineralisation dipping to the west. However, a detailed review of drill core and trench mapping revealed the presence of north-west trending fracture sets dipping moderately towards the north east. As most drill holes were collared to the west of peak surface uranium values and drilled towards the east, it was revealed that the drill holes were incorrectly targeted. No significant north east dipping fracture sets were intersected, resulting in the Oryx prospect being significantly under-drilled.

Mpande: Located immediately to the south east of Lusaka, the Mpande licence covers the large Mpande dome intrusive complex and major regional structural systems. A number of Uranium Targets have been generated at Mpande including Mvula East, Katoba and Mkwisi River.

The **Mvula East** prospect is a linear airborne uranium radiometric anomaly associated with a steep ridge of dolomitic schist in the Neoproterozoic supracrustal rocks of the Katangan Supergroup. The anomaly is about 7 km long and the outcropping steeply dipping dolomitic schist is about 80 m wide. Detailed surface rock chip sampling along the ridge of dolomitic schist outcrop yielded values up to 868 ppm U_3O_8. Eight diamond drill hole have been drilled at Mvula East to test the anomalous surface rock chip samples and the prominent airborne radiometric anomaly. All holes were drilled with orientation -55° to 225°. The best intersections >200 ppm U_3O_8 are listed in the table below. The intersections comprised narrow zones, typically less than a metre in width, with maximum U_3O_8 content of 826 ppm. These anomalous zones contain fine grains of a black mineral (so far not conclusively identified but probably davidite and/or uraninite) in dolomitic schist, within a strongly metamorphosed country rock sequence of quartz-chlorite-biotite schist and quartz-chlorite-dolomite schist. Significant results from the diamond drilling include; 0.42m at 826ppm U_3O_8 from 187.9m, 0.2m at 823ppm U_3O_8 from 199.8m and 0.6m at 734ppm U_3O_8 from 207.7m. Whilst considerable scope remains to define a very large tonnage deposit at Mvula East, the general uranium grades were considered too low to warrant additional drilling at this stage.

Katoba Prospect. Lithic completed a ground radiometric survey over the Katoba prospect and a trenching program. A number of shallow trenches were hand excavated. It appears the uranium anomaly is hosted by NW-SE trending pegmatites and quartz veins which form gently rising ridges within quartz - biotite schist country rock. The area is cross cut by multiple faults, dominantly trending NE-SW and NNW-SSE, which displace and terminate some pegmatites and veins. Reconnaissance spectrometer traverses on the uranium anomaly encountered sporadic uranium values up to greater than 200ppm with visible float of davidite. The davidite appears to be associated with quartz veins within the pegmatite, the pegmatite itself and on the contact position between quartz veins, pegmatite and schistose country rock. Assays from trench sampling are awaited, with values in excess of 1000ppm U expected. In certain areas davidite is concentrated at surface, forming secondary accumulations of potential economic interest.

Mukwisi River: Target MPU 33 revealed the presence of a NW-SE trending aplite / pegmatite vein array over a strike length of approximately 500m and up to 25m wide. Davidite in association with quartz veins was observed at several locations. Field mapping and ground spectrometry revealed surface readings up to 674ppm eU. 10 trenches totalling 170 m were excavated in the aplitic pegmatite and 81 samples were collected for spectrometry readings in a sterile environment. Spectrometry revealed intersections of 2m @ 550 ppm eU in Trench 7 (with the highest value of 901.92 ppm eU); 8m @ 887.54 ppm eU in Trench 8 (with the highest value of 3031 ppm eU) and the highest value of 109 in Trench 9. Rock chip and trench samples collected from MPU 33 are awaiting despatch to the laboratory for analysis. The onset of the wet season has precluded any further work at the prospect to date.

Geological mapping over the MPU34 target area at 1:1000 has identified the presence of a crystalline dolomite striking NW over 350m in length and 40m in width in association with peak uranium radiometric values. A carbonatite intrusion truncates the southern end of the dolomite. Due to time constrains, exploration on ground has consisted of radiometric profiling over the dolomite and the collection of 32 rock chip samples, 19 of which returned assays greater than 100ppm U_3O_8 (up to 485ppm U_3O_8).

The information in this report that relates to Exploration Results is based on information compiled by General Manager Exploration Jay Klopper BSc (Hons). Mr Klopper is a full-time employee of Zambezi Resources, and a Member of the Australian Institute of Geoscientists. Mr Klopper is a Competent Person as defined in the December 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code) and consents to the inclusion in the report of the matters based on the information in the form and context in which it appears. Note: Coordinate system Arc 50 UTM Zone 35S; Gold Intervals are calculated on the basis of lower cut-off grade of 0.5 g/t Au, maximum consecutive internal waste 1m. Copper Intervals are calculated on the basis of lower cut-off grade of 0.3% copper, maximum consecutive internal waste 1m. All trenches were sampled via continuous channels from the trench walls, at vertical depths ranging from 1-3 metres below surface.

Tenements

Zambezi's project portfolio is located primarily in southern Zambia comprises nine prospecting licences, held 100% by Zambezi's Zambian subsidiary Mwembeshi Resources Limited ("Mwembeshi") with another 10 licences covering 4,757 square kilometres under joint venture (Figure 5).

In accordance with the new mining laws, Zambezi and its joint venture partners have carried out substantial reductions in their tenement position while retaining core project areas. To comply with the Act, Zambezi has retained a direct 100% interest over 4,880km^2 in area , while retaining through joint ventures an area of influence over 9,637km^2 in area, which contains all of the main project areas while retaining (Figure 1, Table 2). All tenement renewals, relinquishments, new applications and transfers have now been addressed by the Zambian Department of Mining and Mineral Development and all titles are in good standing. Zambezi holds a further five licences covering 851 km^2 in Mozambique (Table 3), through its Mozambican subsidiary Africa Austral Mineraçao Limitada ("Africa Austral"). The primary focus in Mozambique is on gold exploration

TENEMENTS

Table 2: Zambezi's Zambian tenement schedule

Tenement	Holder	Licence Number	Grant Date	Number of Renewals	Next Renewal Date	Area (Sqkm)
Rufunsa(2)	Mwembeshi Resources	PL279	31/01/2006	2	3/03/2011	493
Zambezi(2)	Mwembeshi Resources	PL214	15/12/2003	3	20/03/2011	977
Luano(1)	Mwembeshi Resources	PL13149	19/03/2009	0	19/03/2011	293
Shamifwe(1)	Mwembeshi Resources	PL13147	2/03/2009	0	2/03/2011	308
Chumbwe(2)	Mwembeshi Resources	PL227	13/05/2004	2	4/03/2011	283
Mulofwe(2)	Mwembeshi Resources	PL219	1/03/2004	2	3/04/2011	1000
Mpande(2)	Mwembeshi Resources	PL220	1/03/2004	2	3/04/2011	423
Mulungushi(2)	Mwembeshi Resources	PL224	11/05/2004	2	3/04/2011	178
IronCap(1)	Mwembeshi Resources	PL13148	19/03/2009	0	19/03/2011	925
Total Area						**4880**
Sinjela(1)	Chalimbana Resources	PL13138	10/03/2009	0	10/03/2011	334
Lwimba(1)	Chalimbana Resources	PL13137	10/03/2009	0	10/03/2011	243
Mvula(1)	Chalimbana Resources	PL13093	3/04/2009	0	3/04/2011	959
Chilanga(1)	Chalimbana Resources	PL13094	4/03/2009	0	4/03/2011	223
Luano-Lala(1)	Chalimbana Resources	PL13140	6/01/2009	0	6/01/2011	997
Total Area						**2756**
Cheowa	Cheowa Resources	PL365	29/08/2007	0	29/08/2009	485
Chalimbana(1)	Cheowa Resources	PL13170	19/03/2009	0	19/03/2011	445
Chayinda(1)	Cheowa Resources	PL13171	20/03/2009	0	20/03/2011	689
Total Area						**1619**
Mpande A PL13172(1)	Mpande Limestone	PL13172	3/04/2009	0	3/04/2011	95
Mpande B PL13173(1)	Mpande Limestone	PL13173	20/03/2009	0	20/03/2011	287
Total Area						**382**

Notes:

(1) New applications.
(2) Reduction in size and renewal of existing tenement.

Table 3: Zambezi's Mozambique tenement schedule

Holder	Licence Number	Grant Date	Next Renewal Date	Tenement Area (km^2)
Africa Austral Mineraçao Limitada	1017L	4/07/2005	4/07/2010	259
Africa Austral Mineraçao Limitada	1018L	4/07/2005	4/07/2010	259
Africa Austral Mineraçao Limitada	1038L	4/07/2005	4/07/2010	108
Africa Austral Mineraçao Limitada	1040L	4/07/2005	4/07/2010	163
Africa Austral Mineraçao Limitada	1291L	12/01/2006	12/01/2011	62
Total area in Mozambique				851

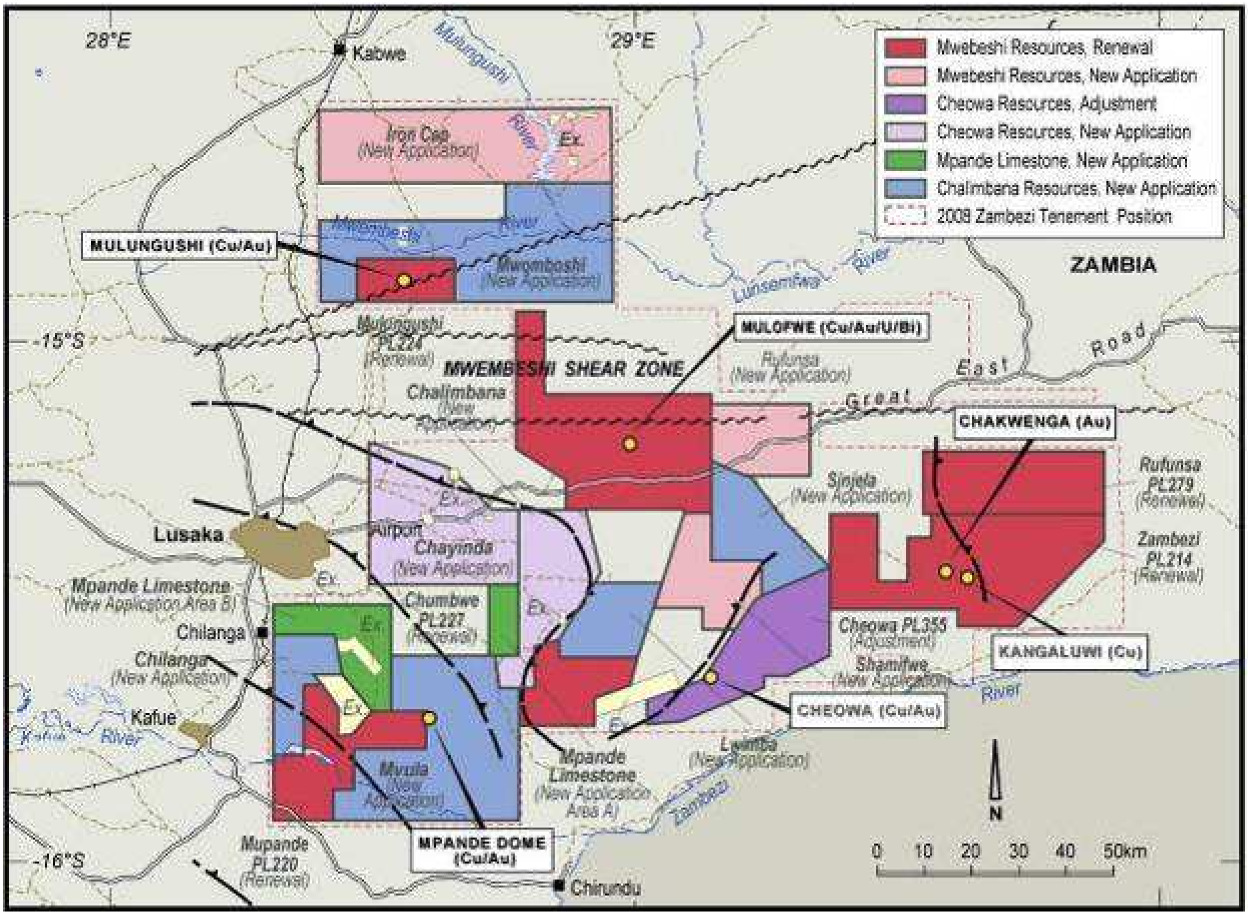

Figure 5: Lusaka East Project Location Plan

Corporate & Strategic Review

The Zambezi strategy from its inception in 2004 has been to identify and develop multiple IOCGU targets. Zambezi's extensive and largely unexplored tenement portfolio in Zambia made this a potentially highly rewarding endeavour. To mitigate the high risk associated with greenfields exploration, Zambezi remained focused on the Copper Gold commodities within the IOCGU targets. In addition, the Company brought in large joint venture partners with the technical and financial resources to compliment Zambezi's capabilities. The company also developed a high level and world class in-country sustainable development strategy to mitigate the local sovereign risk factors. The company progressively expanded its execution capability by hiring and developing a large local exploration workforce and attracted a number of Australian support companies in the form of drilling contractors and assay laboratories to enter Zambia. To mitigate and lower the company's funding risk, the company successfully dual listed on the Australian Securities Exchange in 2007.

In planning for the 2008/09 financial year, the company's business model appeared sound. At the new Kangaluwi discovery, the expected discovery cost was forecast to be around 2 to 3 US cents per pound copper delineated, while markets were valuing undeveloped and similar copper projects in the range of 10 to 25 cents per pound. The Copper price in early 2008 reached record highs and our uranium joint venture partners were optimistic about the Company's uranium assets.

The severity and rapidity of the decline in the Company's financial operating environment in mid to late 2008 are without precedent in our modern business lifetime. The decline in the Zambian sovereign risk rating was probably most influential in thwarting the company's ambitions to attract a joint venture partner for Kangaluwi. The global financial crisis which gained momentum towards the end of 2008 extinguished any opportunity for a reasonable financial rescue. The company's former strategic competitive advantages, namely a large project portfolio and exploration capacity became major financial disadvantages. Zambezi responded by ceasing all exploration activities in July except for limited "drilling for equity" at Kangaluwi. All operations were ceased following the poor take-up of the rights issue in September. The cost of retrenchments and closing down a substantial operation in Zambia has been high. Our Uranium joint venture partners scaled down their operation in late 2008 and suspended operations in 2009. Zambezi received a withdrawal notice from Rio Tinto in March which was not unexpected given that company's difficulties in the preceding months.

The termination of the Astron strategic funding arrangements was most disappointing but in the current financial environment not unusual. The termination of this agreement did however place the company in severe financial difficulties.

At present valuations, there is little incentive to explore. However the medium to long term fundamentals remain sound. In Zambia, two new smelters have been commissioned and there remains a net copper concentrate deficit. Copper prices have rapidly recovered in 2009 and the long term prognosis for copper remains excellent, with a global decline in copper reserves and few major copper discoveries. The gold price has recovered and uranium exploration and production is still attracting substantial investment from institutional investors. In 2008, the Zambian government introduced legislation to enable the mining of uranium and in early 2009 revised and rescinded the majority of the punitive windfall tax legislation introduced in 2008.

Zambezi's strategy going forward will be to rationalise the company's former ambitious exploration program and review the asset portfolio with a view to cashing in on one or more of the assets. Ideally this will be negotiated from a position of strength rather than in a fire sale scenario which is what the company has been faced with in the past 9 months. The company's overheads have already been slashed to minimal levels, which is consistent with the new economic reality. The company does however still possess substantial operating experience and knowledge in a region that remains an attractive destination for resource development. Zambezi will look to leverage this in the coming years.

Events subsequent to year ending March 2009.

On 30 April 2009, the Company reached agreement with its major creditors to convert debt into equity. In May the company's shares were removed from quotation on the AIM market after being suspended for more than 6 months. Given the lack of funding opportunities available in the UK and the costs of maintaining the UK quotation, the company did not oppose the removal from AIM's list of quoted companies. A strategic alliance and funding arrangements were agreed with Clarity Capital Limited and announced on 10 June 2009. Although shareholder approval was granted on 22 June to allow for the transaction to complete, Clarity elected to terminate the contract just prior to the completion of the first stage funding being settled. On 15 July, the company announced a third financial rescue package with LinQ Resources Fund. Further details of the rescue package with LinQ Resources Fund are included to Note 26 of the financial report.

In summary, Zambezi's ability to attract and complete a financial rescue package has been a tough and arduous process over the past 6 months. The company's negotiation position has been eroded as counterparties have failed to complete the funding transactions as initially contemplated. The increasingly tenuous financial position the company has found itself in has severely constrained the flexibility and negotiation position for the Directors of the Company. I would like to acknowledge the help and goodwill shown to the company to complete the financial rescue in the circumstances.

Julian Ford
Managing Director

GLOSSARY

"AIM"	The AIM market of the London Stock Exchange plc;
"alteration"	Changes in the chemical or mineralogical composition of a rock, produced by weathering or hydrothermal solutions;
"artisanal mining"	Small scale mining of a non mechanised scale;
"ASX"	The Australian Securities Exchange
"auriferous"	Containing gold; gold bearing;
"azurite"	A copper carbonate mineral found in the oxidised zones of copper deposits $Cu_3(CO_3)_2(OH)_2$
"basement"	The igneous and metamorphic crust of the earth, underlying sedimentary deposits;
"bornite"	A common sulphide ore of copper Cu_5FeS_4
"brecciated"	A texture describing a rock comprising angular fragments enclosed in a matrix;
"chalcocite"	A common sulphide ore of copper Cu_2S
"chalcopyrite"	A common sulphide ore of copper, CuFeS2;
"Chongwe Copper Belt"	The 80km shear zone on the Mulofwe Prospecting Licence hosting a number of copper and gold prospects;
"disseminated"	A scattered distribution of generally fine-grained minerals throughout a rock;
"g/t"	Grams per tonne;
"galena"	common sulphide ore of lead PbS
"geochemical"	The geological application of sampling and assaying in a systematic fashion to identify areas of mineralisation;
"geophysical"	The application of physics to geological exploration, such as aeromagnetic, induced polarity or gravity surveys;
"gneiss"	A group of rocks with a banded or closely foliated structure formed by regional metamorphism;
"gossan"	A ferruginous deposit remaining after the oxidation of the original sulphide minerals in a vein or ore zone;
"granitoid"	A general term for intrusive igneous rocks of the granite-diorite family;
"helimagnetics"	Geophysical data generated by measuring the magnetic response of rocks using a helicopter-mounted magnetometer
"Indicated Mineral Resource"	Classification within the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code) that refers to that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence.
"Inferred Mineral Resource"	Classification within the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code) that refers to that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence.
"IOCGU"	A particular style of iron oxide copper gold mineralisation containing quantities of copper, gold and uranium occurring together;
"JORC Code"	The Australasian Code for Reporting of Mineral Resources and Ore Reserves issued by the Joint Ore Reserves Committee;
"magnetite"	An iron oxide mineral, Fe_30_4;
"malachite"	A copper carbonate mineral found in the oxidised zones of copper deposits, $Cu\ C0_3$. $Cu\ (OH)_2$;
"mica"	A group of phyllosilicate minerals;
"mineralisation"	A rock containing valuable components of metals or metals compounds;
"oxide"	Oxidised form of mineral;
"polymetallic"	Comprising an abundance of metallic elements eg, copper, gold, silver, bismuth;
"ppb"	Parts per billion;

“ppm”	Parts per million;
“project”	In this document, a Project generally refers to the five different groups of tenements of similar geological structure;
“prospect”	In this document, a Prospect generally refers to a mineral occurrence or historical mine;
“pyrite”	n iron sulphide mineral, FeS2;
"pyrrhotite"	A common sulphide ore of iron Fe_7S_8
“quartz”	mineral containing Silica and oxygen, SiO2;
"quartzo-feldspathic"	ers to a rock composed primarily of silicate minerals quartz and feldspar
“RC drilling”	Reverse Circulation drilling, a percussion method of drilling that provides high quality uncontaminated samples;
“reserves”	A resource for which a mine and process plan has been completed such that the resource has been deemed to be economic to mine;
“resources”	Concentrations of naturally occurring materials in such form that economic extraction is currently or potentially feasible;
"sediment”	A rock formed of particles which were deposited from suspension in water, wind or ice;
"sulphide”	Sulphide form of mineral;
“schists”	A micaceous crystalline metamorphic rock having a foliated structure due to the recrystallisation of the constituent minerals;
“shear zone”	A zone in which shearing has occurred on a large scale, such that the rock is deformed dominantly by ductile deformation;
“silicified”	Refers to a rock that has been subject to replacement by silica;
“Telfer”	A stockwork gold-copper system in Western Australia hosted by a fine-grained sedimentary sequence of similar age and setting to those of Southern Zambia;
“veins”	A thin infill of a fissure or crack, commonly bearing quartz.
"VTEM"	Versatile Time Domain Electromagnetics, a proprietary system owned and operated by geophysical contractors Geotech Airborne Ltd, for measuring the electrical properties of rocks using a helicopter-mounted system

The Directors present their report and the audited financial statements of the Consolidated Entity (being Zambezi Resources Limited and its subsidiaries respectively) for the year ended 31 March 2009.

Principal activities

The Consolidated Entity's (being the Company and its subsidiaries as detailed in Note 11 of the financial statements) principal activity during the financial period was the exploration for commercially and economically viable copper, gold and uranium resources in Zambia and Mozambique.

Results and dividend

The loss for the Group for the year ended 31 March 2009 was £16,336,614 (31 March 2008: £3,503,336).

The Directors do not recommend the payment of a dividend.

Directors' Profiles

<u>Executive Directors</u>

Mr Julian Ford *– B.Sc Chem Eng, B. Comm, Grad.Dip.Bus.Man - Managing Director, Australian*

Julian Ford has extensive experience in the resources industry, both in Australia and internationally, having worked for several major resource companies including Alcoa, British Gas, Western Metals and Rustenburg Platinum. He has held a variety of senior management roles across a range of disciplines including exploration, marketing and operations which have given him solid grounding for his current position at Zambezi Resources Limited, which he co-founded in 2004.

Mr Ford graduated in 1987 with a degree in Chemical Engineering from the University of Natal, Durban, South Africa, and later completed a Bachelor of Commerce at the University of South Africa and a Graduate Diploma in Management from the University of Western Australia. Mr Ford is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM).

<u>Non-Executive Directors</u>

Mr Brian Rear – AWASM, MSc (London), DIC; MBL (South Africa); MAICD - Non Executive Chairman, Australian

Mr Rear has a distinguished career in mining spanning over 35 years of technical and managerial experience in Australia, New Guinea, United Kingdom, Europe, South Africa and Indonesia. He has worked for successful resource companies including CRA, Rio Tinto Consultants, Barrack Mines, Anglovaal and Straits Resources in gold, base metals, uranium, thermal coal and industrial minerals. Mr Rear is a graduate from the Western Australian School of Mines in metallurgy. He is a graduate of the Royal School of Mines London, holding a Diploma of Imperial Collage and an MSc (Lon) in mineral process design from the University of London. Brian also holds a Masters Degree in Business Leadership from the University of South Africa's School of Business Leadership.

Mr Rear is currently a Non Executive Director of Copper Range Limited and CopperCo Limited (in Receivership)

Dr Geoffrey Johnson *- B.Sc. (Hons), PhD (Geology), Grad. Dip. Env. Sc. - Exploration Director, Australian*

Dr Johnson provided technical input as a Non Executive Director of the company prior to listing on AIM, and became Executive Exploration Director of the Company on 1 March 2005. He has accumulated over 23 years experience in multi-commodity mineral exploration throughout Australia and Africa. Dr. Johnson was awarded a PhD in 1992 from the University of Adelaide where he graduated in 1980 with an honours degree in Geology. He later completed a Graduate Diploma of Environmental Science at Murdoch University, Perth. Dr Johnson is a Fellow of the Australian Institute of Geoscientists, a Fellow of the Australasian Institute of Mining and Metallurgy a Fellow of the Society of Economic Geologists, and is a Member of the Geological Society of Australia, and the Society for Geology Applied to Mineral Deposits. He resigned as Executive Exploration Director on 30 September 2008 and assumed a non executive role on the board of directors. He resigned as a Non Executive Director of Zambezi Nickel Limited on 16 October 2008.

Mr Jeremy Bruce Earl Wrathall *- Non Executive Director, British*

Mr Wrathall has extensive experience of both the practical and financial aspects of mining. After graduation from the Camborne School of Mines in 1985 he worked for 3 years on various gold and base metal mines in South Africa. Following his return to the UK he has spent 16 years working as an investment analyst and equity salesman in the City of London, including 2 years as Head of Mining Equity Sales for Warburg Dillon Read and 2 years as Global Head of Mining Equities for Deutsche Bank. He was the Chairman of the Association of Mining Analysts during 1996. In 2004 Jeremy jointly founded the London office of Haywood Securities Inc, and went on to co-found his current employer, GMP Securities Europe, a firm specialising in mining and resource equities. Jeremy resigned from the board of Zambezi Resources Limited on 17 October 2008.

Corporate Governance Statement

In accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* ("**ASX Principles and Recommendations**")[1], Zambezi Resources Ltd has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Principles and Recommendations, the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available and activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Principles and Recommendations, the Board has offered full disclosure of the nature of and reason for the adoption of its own practice.

Further information about the Company's corporate governance practices is set out on the Company's website at www.zambeziresources.com. In accordance with the ASX Principles and Recommendations, information published on the Company's website includes charters (for the Board and its committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

"If Not, Why Not" Reporting

During the Company's 2008/2009 financial year ("**Reporting Period**") the Company has followed with each of the ASX Principles and Recommendations, other than in relation to the matters specified below.

Principles 2, 3, 4 and 5

Principle 2 Recommendation 2.1

Notification of Departure: During the year the Board did not have a majority of independent directors. It was comprised of two independent directors and two non-independent directors for half the year. The Board currently comprises of two non executive directors and one executive director as a result of the resignation of Mr Jeremy Wrathall on 17 October 2008.

Explanation for Departure: The Board considers that the current composition of the Board includes an appropriate mix of skills and expertise, relevant to the Company's business. The Board is of the view that it has achieved an appropriate balance between independent representation and maintaining sufficient relevant experience for the Board to fulfil its objectives. The Chair of the Board is independent.

Principle 2 Recommendation 2.4

Notification of Departure: The full Board performs the function of a nomination committee.

Explanation of Departure: The Board fulfils the role of a nomination committee. Given its size and composition, the Board considers that at this stage, no efficiencies or other benefits would be gained by establishing a separate nomination committee. To assist the Board to fulfil its function it has adopted a Nomination Committee Charter.

[1] A copy of the ASX Principles and Recommendations is set out on the Company's website under the Section entitled "Corporate Governance".

Principle 4 Recommendation 4.2

Notification of Departure: The Board's Audit Committee is not structured in accordance with ASX Principles and Recommendations.

Explanation for Departure: While the Audit Committee comprised a majority of independent directors and consisted of 3 members, it also includes an executive and the chair of the Audit Committee is also the Chair of the Board. Mr Jeremy Wrathall resigned from the Board during the year and his position on the Audit Committee has not been replaced as at year end. Given the Board's size and composition, the Board considers that the Audit Committee's present structure is the best mix of skills and expertise to efficiently carry out the responsibilities of an Audit Committee. The Board has adopted an Audit Committee Charter which the Audit Committee applies.

Board Meetings

The Directors held four meetings during the year. The following table shows their attendance at Board meetings:

Name	No. of meetings attended
Brian Rear	4
Julian Ford	4
Geoffrey Johnson	4
Jeremy Wrathall	1

Note: The Board also passed 15 circular resolutions during the reporting period.

Nomination Committee

The full Board, in its capacity as the Nomination Committee held one meeting during the Reporting Period. The nominated candidate was unable to fill the position offered on the board due to the failure of the Company to complete a fundraising placement. The meeting was attended by Brian Rear, Julian Ford and Geoffrey Johnson.

Audit Committee

The Audit Committee held two meetings during the Reporting Period. The following table identifies those directors who are members of the Audit Committee and shows their attendance at committee meetings:

Name	No. of meetings attended
Brian Rear (Independent Chair)	2
Julian Ford	2
Jeremy Wrathall (Independent)	1

Details of each of the directors' qualifications are set out in the Directors' Report. All directors consider themselves to be financially literate and have extensive industry knowledge.

Remuneration Committee

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The Remuneration Committee held one meeting during the Reporting Period. The following table identifies those directors who are members of the Remuneration Committee and shows their attendance at committee meetings:

Name	No. of meetings attended
Brian Rear (Chair)	1
Jeremy Wrathall	1

OTHER

Skills, Experience, Expertise and term of office of each Director

A profile of each director containing the skills, experience, expertise and term of office of each director is set out in the Directors' Report.

Identification of Independent Directors

In considering the independence of directors, the Board refers to the criteria for independence as set out in Box 2.1 of the ASX Principles and Recommendations ("**Independence Criteria**"). To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Board Charter, which is disclosed in full on the Company's website.

Applying the Independence Criteria, the independent directors of the Company are Brain Rear and Jeremy Wrathall. During the reporting period Jeremy Wrathall resigned and was replaced by Geoffrey Johnson as an Independent director pursuant to the adopted Independence Criteria.

Statement concerning availability of Independent Professional Advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the chairperson, the Company will pay the reasonable expenses associated with obtaining such advice.

Confirmation whether performance Evaluation of the Board and its members have taken place and how conducted

An informal evaluation of the Executive Directors was carried out by the Board in conjunction with an externally commissioned remuneration report. The Board considered the Executive Directors' salaries in relation to the overall performance of the Company and against previously agreed individual performance criteria. No formal evaluation of the Board or individual members was carried out during the Reporting Period. Given the size and composition of the Board and the nature of the Company's operations it was not considered to be a beneficial procedure at this time. However, the composition of the Board and its suitability to carry out the Company's objectives is discussed on an as-required basis during regular meetings of the Board.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for non-executive directors.

Directors' interests

The Directors of the parent entity 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	SHARES HELD AS AT 31 MARCH 2009		LISTED OPTIONS HELD AS AT 31 MARCH 2009		UNLISTED OPTIONS AS AT 31 MARCH 2009	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Brian Rear	-	276,228	-	13,742	1,000,000	-
Julian Ford	1,516,129	1,000,000	5,376	-	3,000,000	-
Geoffrey Johnson	16,129	-	5,376	-	-	1,950,000

Jeremy Wrathall resigned on 17 October 2008 and at the time of resigning his post he had an interest in 190,000 shares and 995,000 options.

Unlisted options were granted at exercise prices of £0.12, £0.16 and £0.20 per share. Listed options were free attaching options issued pursuant to applications for shares in a rights issue and have an exercise price of AUD$0.019 expiring 31 August 2009.

Remuneration report

Salaries and fees paid to Directors have been determined in relation to salaries paid to comparable companies, management responsibility and experience. The salaries shown will be reviewed annually to ensure that Directors are appropriately rewarded for their efforts in enhancing shareholder value.

The annual salaries of the Executive Directors at period end 31 March 2009 were:

NAME	ANNUAL SALARY
Julian Ford	AUD$330,000
Geoffrey Johnson	AUD$235,000

The annual fees paid to Non-Executive Directors at period end 31 March 2009 were:

NAME	ANNUAL FEE
Brian Rear (Chairman)	£30,000
Geoffrey Johnson [1]	£20,000

During the financial year to 31 March 2009 the following amounts were paid to Directors by way of salaries and fees:

NAME	Salary	Fee	Performance bonus	Retirement Benefits	Other benefits	Options Granted	Total Remuneration
Brian Rear	-	£30,000	-	-	-	£13,700	£43,700
Julian Ford	£151,757[4]	-	£9,375[3]	-	-	-	£161,132
Geoffrey Johnson	£63,350[1,4]	£10,000	£7,500[3]	-	-	-	£80,850
Jeremy Wrathall [2]	-	£10,968	-	-	-	£13,700	£24,668

1 Geoffrey Johnson resigned as an executive director on 30 September 2008 and assumed a non executive director role.
2 Jeremy Wrathall resigned from the board on 17 October 2008.
3 The performance bonus relates to partial achievement of the second half of the prior period's (2008) performance parameters.
4 Julian Ford's salary of AUD$330,000 and Geoffrey Johnson salary of AUD$137,756 were converted to GBP at rate of AUD$1 = £0.4599.

DIRECTORS' REPORT

Substantial Shareholders

The names of the twenty largest shareholders at 23 June 2009 are:

Shareholder Name	Number of Ordinary Shares	Percentage of Shares %
MAXIDRILL PTE LIMITED	55,841,935	14.4
GLENCORE INVESTMENTS BV	29,162,062	7.5
ASTRON LIMITED	29,000,000	7.5
MID CONTINENT DRILLING COMPANY	28,139,565	7.2
MBBJ MANAGEMENT SERVICES LTD	28,509,994	7.3
ROY NOMINEES LIMITED	19,053,300	4.9
NRG EXPLORATION CC	19,036,140	4.9
VOYAGER RENTALS LTD	17,881,801	4.6
GOLDMAN SACHS SECURITIES (NOMINEES) LIMITED	13,804,500	3.6
BNY MELLON NOMINEES LIMITED	13,000,000	3.3
BBHISL NOMINEES LIMITE	11,785,872	3.0
GENALYSIS LABORATORY SERVICES PTY LTD	9,515,790	2.4
COPPERCO LTD	9,905,000	2.5
HSBC CUSTODY NOMINEES LTD	5,052,740	1.3
CHASE NOMINEES LIMITED	4,895,833	1.3
GEOTECH AIRBORNE LTD	4,455,769	1.1
BNY NOMINEES LIMITED	3,570,000	0.9
VIDACOS NOMINEES LTD	3,212,473	0.8
SECURITIES SERVICES NOMINEES LTD	2,977,750	0.8
AUSTRALIAN LABORATORY SERVICES PTY LTD	2,955,934	0.8
	314,669,958	**81.0**

Signed on behalf of the Board.

Julian Ford
Director
30 July 2009

Brian Rear
Director
30 July 2009

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

We have audited the accompanying financial report of Zambezi Resources Limited which comprises the balance sheet as at 31 March 2009, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration, of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 29 to 64.

Directors' responsibility for the Financial Report

The directors of the entity are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards. This responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Auditor's Opinion

In our opinion, the financial report presents fairly, in all material respects, the financial position of Zambezi Resources Limited as at 31 March 2009, and of its financial performance, its cash flows and its changes in equity for the year ended on that date in accordance with International Financial Reporting Standards.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 3 in the financial report which indicates that the Consolidated Entity incurred a net loss of £16,366,614 during the year ended 31 March 2009 (31 March 2008: loss of £3,503,336), experienced net cash outflows of £4,354,539 (31 March 2008 net inflow: £2,250,355) and, as of that date, had a net current liability position of £1,935,816 (31 March 2008: net current assets of £3,449,200). These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ross Jerrard
Partner
Chartered Accountants
Perth, 30 July 2009

CONSOLIDATED INCOME STATEMENT

Continuing operations	NOTES	YEAR ENDED 31 MAR 2009 £	YEAR ENDED 31 MAR 2008 £
Investment revenue	6	58,382	342,274
Other income	6	2,168,848	348,404
Share of losses of associates	12	-	(223,583)
Other expenses	6	(18,589,633)	(3,672,364)
Loss before tax	6	(16,362,403)	(3,205,269)
Income tax expense	8	(4,211)	(298,067)
Loss for the year		(16,366,614)	(3,503,336)
Attributable to:			
Equity holders of the Parent		(16,366,614)	(3,451,377)
Minority interest		-	(51,959)
		(16,366,614)	(3,503,336)
Earnings per share			
Basic and diluted loss per share	7	(0.08)	(0.02)

Notes forming part of these financial statements are included on pages 33 to 63.

CONSOLIDATED BALANCE SHEET

AS AT
31 MARCH 2009

	NOTES	31 MAR 2009 £	31 MAR 2008 £
ASSETS			
Non-current Assets			
Property, plant and equipment	9	-	333,451
Mineral Interests	10	2,815,200	10,931,428
Investments accounted for using the equity method	12	4,900	1,139,117
Total non-current assets		2,820,100	12,403,996
Current Assets			
Trade and other receivables	13	112,656	678,843
Prepayments	14	11,149	157,919
Cash and cash equivalents	15	188,270	4,410,615
Inventories	16	-	47,109
Total current assets		312,075	5,294,486
Total Assets		3,132,175	17,698,482
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables	18	1,733,157	1,438,758
Borrowings	17	-	10,988
Tax liability	8	271,599	298,067
Provisions	19	243,135	97,473
Total current liabilities		2,247,891	1,845,286
Total liabilities		2,247,891	1,845,286
Equity			
Issued capital	20	2,268,762	1,881,853
Share premium reserve	20	21,132,263	20,730,095
Options & Warrants reserve	21	1,107,389	1,079,989
Translation Reserve	21	506,680	(74,545)
Accumulated loss		(24,130,810)	(7,764,196)
Equity attributable to equity holders of the Parent		884,284	15,853,196
Outside shareholders interest		-	-
Total equity and liabilities		3,132,175	17,698,482

Notes forming part of these financial statements are included on pages 33 to 63.

Signed on behalf of the Board.

Julian Ford
Director
30 July 2009

Brian Rear
Director
30 July 2009

	YEAR ENDED 31 MAR 2009 £	YEAR ENDED 31 MAR 2008 £
Issued Capital		
Opening balance	1,881,853	1,300,229
Issued during the period	386,909	581,624
Closing balance	2,268,762	1,881,853
Share Premium Reserve		
Opening balance	20,730,095	11,225,456
Premium on shares	432,102	10,097,072
Less capital raising costs	(29,934)	(592,433)
Closing balance	21,132,263	20,730,095
Options & Warrants Reserve		
Opening balance	1,079,989	518,677
Options issued during the period	27,400	595,153
Reversal on deconsolidation of Lithic Metals & Energy Limited	-	(33,841)
Closing balance	1,107,389	1,079,989
Accumulated Losses		
Opening balance	(7,764,196)	(4,580,267)
Loss for the period (ii)	(16,366,614)	(3,451,377)
Reversal of dilution reserve on deconsolidation of Lithic Metals & Energy Limited	-	267,448
Closing balance	(24,130,810)	(7,764,196)
Translation Reserve		
Opening balance	(74,545)	(147,188)
Reversal on deconsolidation of Lithic Metals & Energy Limited (i)	-	(10,791)
Gain/(loss) for the period (i)	581,225	83,434
Closing balance	506,680	(74,545)
Dilution Reserve		
Opening balance	-	267,448
Dilution on shareholding in Lithic Metals & Energy Limited (i)	-	-
Reversal of dilution reserve on deconsolidation of Lithic Metals & Energy Limited (i)	-	(267,448)
Closing balance	-	-
Total equity attributable to equity holders of the Parent	884,284	15,853,196
Minority Interest		
Opening balance	-	1,111,397
Changes in minority interest	-	(1,111,397)
Closing balance	-	-
Total Equity	884,284	15,853,196

(i) Net income/(loss) recognised directly in equity		
Exchange gain/(loss) arising on translation of foreign operations	581,225	83,434
Dilution on shareholding in Lithic Metals & Energy Limited	-	(10,791)
Reversal of dilution reserve on deconsolidation of Lithic Metals & Energy Limited	-	(33,841)
Total net income/(loss) recognised directly in equity	581,225	38,802

(ii) Loss for the period	(16,366,614)	(3,451,377)
Total recognised income and expense	15,785,389	(3,412,575)

Notes forming part of these financial statements are included on pages 33 to 63.

CONSOLIDATED CASH FLOW STATEMENT

	YEAR ENDED 31 MAR 2009 £	YEAR ENDED 31 MAR 2008 £
Cash flows from operating activities		
Payments to suppliers and employees	(566,332)	(3,873,549)
Receipts from customers	435,085	25,055
Net cash utilised by operating activities	(131,247)	(3,848,494)
Cash flows from investing activities		
Payments for mineral interests	(10,625,953)	(9,491,739)
Purchase of property, plant and equipment	(120,317)	(276,315)
Proceeds from sale of property, plant and equipment	2,390	19,308
Proceeds from sale of investments	131,658	-
Interest received	58,382	342,274
Proceeds on loan repayment	-	102,138
Cash outflow on deconsolidation of Lithic Metals & Energy Limited	-	(185,528)
Net cash utilised by investing activities	(10,553,840)	(9,489,862)
Cash flows from financing activities		
Proceeds from issue of share capital	819,011	10,678,696
Payment for share issue costs	(29,934)	(592,433)
Repayment of borrowings	(10,988)	(2,518)
Joint Venture Partner contributions	5,552,459	5,504,966
Net cash generated from financing activities	6,330,548	15,588,711
Net increase/(decrease) in cash and cash equivalents	(4,354,539)	2,250,355
Cash and Cash equivalents at beginning of period	4,410,615	2,175,315
Effects of exchange rate changes on the balance of cash held in foreign currencies	132,194	(15,055)
Cash and cash equivalents at the end of period	188,270	4,410,615

Notes forming part of these financial statements are included on pages 33 to 63.

1. Corporate Information

The financial report of Zambezi Resources Limited ("the Company") for the year ended 31 March 2009 was authorised for issue in accordance with a resolution of the directors on 30 July 2009.

Zambezi Resources Limited is a limited company incorporated in Bermuda, whose shares are publicly traded on the Australian Stock Exchange. The addresses of its registered office and principal places of business are disclosed in note 27.

The principle activity of the Company and its subsidiaries (the Group) has been and is exploration for minerals.

2. Adoption of new and revised Standards

(a) Standards and Interpretations effective in the current period

In the current year, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) that are relevant to its operations and effective for the current annual reporting period being:

IAS 39	Financial Instruments: Recognition and Measurement
IFRS 7	Financial Instruments: Disclosures – Reclassification of Financial Assets
IFRIC – Int 11	IFRS 22 – Group and Treasury Share Transactions
IFRIC – Int 12	Service Concession Arrangements
IFRIC – Int 14	Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC – Int 13	Customer Loyalty Programmes

The adoption of these Standards and Interpretations had no impact on the Consolidated Entity's accounting policies nor on the disclosures in these financial statements.

(b) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Consolidated Entity's financial report:
- IAS 1 (Revised) *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009); and

Initial application of the following Standards/Interpretations is not expected to have a material impact on the financial report of the Consolidated Entity:
- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009);
- IAS 27 (Revised) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 1 First time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements – Cost of investment in subsidiary, jointly controlled entity or associate (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 1 (Revised) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3 (Revised) Business Combinations (effective for accounting periods beginning on or after 1 January 2009);

- IFRIC – Int 16 Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008); and
- Annual Improvements to IFRS – April 2009 (effective for accounting periods beginning on or after 1 January 2010)

The directors anticipate that all Standards and Interpretations will be adopted in the Group's financial statements for the periods commencing 1 April 2009 and 1 April 2010. The impact of all other Standards and Interpretations issued but not yet effective are not expected to be material.

3. Summary of Significant Accounting Policies

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of Preparation

The Group financial statements are prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below.

Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Consolidated Entity has incurred a net loss after tax for the year ended 31 March 2009 of £16,366,614 (31 March 2008: loss of £3,503,336) and experienced net cash outflows of £4,354,539 (2008 net inflow: £2,250,355). As at 31 March 2009 the Consolidated Entity had a net current asset deficiency of £1,935,816 (31 March 2008: net current assets of £3,449,200).

During the year to 31 March 2009 and the period to the date of this report, the Directors have taken steps to ensure the Consolidated Entity continues as a going concern. These steps have included:

(i) the Consolidated Entity ceased all exploration activity during September 2008. The Consolidated Entity entered into Standstill agreements with a number of drilling contract creditors that were outstanding as at 30 September 2008 totaling £1,271,071. The Standstill agreements allowed for the deferral of payment of the outstanding amounts to 31 March 2009 plus interest at the rate of 10% per annum for the period 1 September 2008 to 31 March 2009. Interest was capitalised on the outstanding debts. On 1 May 2009, the Consolidated Entity reached agreement with all its major drilling contract creditors for the settlement of these debts through the issue to these creditors of ordinary shares at A$0.02 per share. Shareholder approval was subsequently received on 23 June 2009 and 161,685,161 ordinary shares were issued to settle in full the outstanding drilling creditors at that date of £1,586,589 (A$3,233,704);

(ii) the Consolidated Entity has entered into a Note Subscription Agreement with LinQ Resources Fund (LinQ) for expected proceeds of A$1,000,000 ("the Notes"). The Notes will convert at A$0.005 per share with a maturity date of 31 December 2010 and will be secured against the Consolidated Entity's Zambian assets. The Notes will be issued in two tranches – Tranche A will be for 58 million shares to raise A$290,000 and Tranche B will be for 142 million shares to raise A$710,000. The Notes will bear interest at 12% per annum, payable monthly in arrears and interest will be payable in shares at A$0.005 per share. The subscription is subject to certain conditions precedent as detailed in Note 26 'Post Balance Sheet Events';

(iii) the Note Subscription Agreement also includes an undertaking that within 70 days after the date of the Note Subscription Agreement, or such later date as LinQ may agree, the Consolidated Entity will undertake a rights issue on a one for two basis (as a minimum) on such terms and conditions as LinQ may approve. The expected proceeds from the rights issue is A$1,000,000 of which LinQ has agreed to underwrite a minimum of A$500,000;

(iv) the Consolidated Entity disposed of its entire holding of 26,633,621 ordinary shares in Lithic Metals and Energy Limited for £0.005 per share on 26 October 2008. Proceeds after costs were £131,668;

(v) the Directors have reviewed the quantum and timing of all discretionary expenditures including exploration and development costs and wherever necessary these costs will be minimised or deferred to suit the Consolidated Entity's cashflow from operations;

(vi) in respect of services provided by related parties such as directors and in respect of salaries and entitlements accrued to executive directors, arrangements have been made with these parties to defer all or part of such payments to match the Consolidated Entity's cashflow from operations; and

(vii) included in Trade and Other Receivables at 31 March 2009 was an amount of £63,500 (A$131,989) relating to VAT receivable from the Zambian Tax Authority. The Directors are expecting receipt of the full amount of £63,500 (A$131,989) in July 2009.

The ability of the Consolidated Entity to continue as a going concern and to pay its debts as and when they fall due is dependent on the following:

(i) the successful completion of the conditions precedent under the Note Subscription Agreement as set out in Note 26, to allow for the issue of 200 million shares at A$0.005 per share for total proceeds of A$1,000,000, to be received A$290,000 in July 2009 and A$710,000 in August 2009;

(ii) the receipt of £63,500 (A$131,989) VAT receivable from the Zambian tax authority by 31 July 2009;

(iii) the successful completion of the rights issue within 70 days after the date of the Note Subscription Agreement or at a later date agreed with LinQ, to raise a total of A$1,000,000 which is expected to occur in September 2009;

(iv) if the Consolidated Entity is unable to secure funding through the Note Subscription Agreement with LinQ, the Consolidated Entity would be required to secure additional funding through either the issue of new shares, convertible notes, debt or a combination of all these, or the sale of all or a part equity interest in the Kangaluwi project. This additional funding is required to be secured by August 2009. The form and value of such funding is yet to be determined, and the transaction value of the Kangaluwi project, in the event that a decision is made to sell all or a part interest in this Project, is dependent on what a willing buyer is prepared to pay based on prevailing market conditions and forecast commodity prices; and

(v) ongoing and active management of the expenditure incurred by the Consolidated Entity to protect the current cash levels whilst additional finance is sought through either debt financing or capital raising arrangements.

The Directors have reviewed the Consolidated Entity's overall position and outlook in respect of the matters identified above and are of the opinion that the use of the going concern basis is appropriate in the circumstances.

Notwithstanding this, the Consolidated Entity had £30,601 in cash as at 1 July 2009 and had creditors outstanding of £427,467 and expected operating costs of £352,596 due in July 2009. Accordingly, the ability of the Consolidated Entity to continue as a going concern is dependent on the receipt of the following amounts in July 2009:

- successful completion of the conditions precedent associated with Tranche A of the Note Subscription Agreement and the receipt of the proceeds from Tranche A of A$290,000;
- the receipt of £63,500 (A$131,989) from the Zambian government in relation to the outstanding VAT.

In addition, the Consolidated Entity has forecast outflows of £129,683 in August 2009 and accordingly, the ability of the Consolidated Entity to continue as a going concern is also dependent on the successful completion of the conditions precedent associated with Tranche B of the Note Subscription Agreement and the receipt of the proceeds from Tranche B of A$710,000 in August 2009.

Further, the ability of the Consolidated Entity to continue as a going concern is also dependent upon the successful completion of the rights issue in approximately September 2009 which is expected to raise A$1,000,000.

As a result of the above matters, there is significant uncertainty whether the Consolidated Entity will be able to continue as a going concern.

Should the Consolidated Entity be unable to continue as going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Consolidated Entity be unable to continue as a going concern.

a. Basis of Consolidation

A controlled entity is any entity Zambezi Resources Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 11 to the financial statements.

All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

b. Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

d. Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Consolidated Entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Leasehold Improvements	50%
Computers & Office Equipment	33.33%
Office Furniture	33.33%
Motor Vehicles	33.33%
Plant & Equipment	33.33%

Impairment
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Disposal
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement in the year the asset is derecognised.

e. Exploration and Evaluation Expenditure

Exploration and Evaluation Expenditure

Exploration and evaluation expenditure is accumulated in respect of each identifiable are of interest. These costs are capitalised provided the rights to tenure of the area of interest is current and either:

b) the expenditures are expected to be recouped through successful development and exploitation or sale of the area of interest; or
b) activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Impairment

All capitalised exploration and evaluation expenditure is monitored for indications of impairment on a cash-generating unit basis. The cash generating unit shall not be larger than the area of interest. If sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the capitalised expenditure which is not expected to be recovered is charged to the income statement.

f. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Consolidated Entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the lease property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

g. Financial Instruments

(i) <u>Financial Assets</u>

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

Impairment of financial assets
At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(ii) <u>Financial liabilities and equity instruments issued by the Group</u>

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

h. Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

i. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Pounds Sterling which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the transition of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and

Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

j. Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

k. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

l. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

m. Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of any related Value Added Tax (VAT) or Goods and Services Tax (GST).

n. Share-based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the Black Scholes model.

The fair value determined at the grant date of the equity-settled share-based payments is expenses on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

At each balance sheet date, the Group revises its estimate of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the Options & Warrants Reserve.

o. Investment in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black Scholes model, using the assumptions detailed in note 20.

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by relevance to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and fair value less cost to sell.

Variations to the expected future cash flows, and timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

5. Segmental Information

The Group operates predominately in one business segment, being exploration for minerals, and three principal geographical areas, namely Africa, Australia & Bermuda.

Geographical Segments Year ended 31 March 2009	**AFRICA £**	**AUSTRALIA £**	**BERMUDA £**	**CONSOLIDATED £**
Investment revenue	-	2,572	55,810	58,382
Other revenue	2,110,420	24,818	33,610	2,168,848
Other expenses	(16,169,372)	(125,199)	(2,295,062)	(18,589,633)
Loss before tax	(14,058,952)	(97,809)	(2,205,642)	(16,362,403)
Income tax expense	-	(4,211)	-	(4,211)
Loss for the year	(14,058,952)	(102,020)	(2,205,642)	(16,366,614)
Assets and liabilities				
Segment assets	2,930,678	98,430	103,067	3,132,175
Segment liabilities	1,901,909	79,283	266,699	2,247,891
Segment net assets	1,028,769	19,147	(163,632)	884,284
Capital additions				
Mineral interests[1]	10,625,953	-	947,806	10,625,953
Plant, property & equipment	87,108	33,209		120,317
Total capital additions	10,713,061	33,209	947,806	10,746,270

[1] Additions to mineral interests are detailed net of Joint Venture contributions received from Joint Venture partners.

Non-cash expenditure				
Depreciation	102,765	29,137	-	131,903
Property, Plant and equipment write down	239,618	78,448	-	318,066
Share-based payments	-	-	27,400	27,400
Provision for non recoverability	163,905	-	125,240	289,145
Mineral interest write down	10,492,383	-	2,697,338	13,189,721
Net Foreign exchange (gain)/loss	(2,110,420)	8,045	(33,610)	(2,135,985)
Total non-cash expenditure	8,878,173	115,630	2,816,368	11,810,172

Geographical Segments Year ended 31 March 2008	**AFRICA £**	**AUSTRALIA £**	**BERMUDA £**	**CONSOLIDATED £**
Investment revenue	3,997	2,084	336,193	342,274
Other income	3,528	-	344,876	348,404
Share of losses of associates	-	-	(223,583)	(223,583)
Other expenses	(1,555,114)	(14,000)	(2,051,291)	(3,620,405)
Loss before tax	(1,547,589)	(11,916)	(1,593,805)	(3,153,310)
Income tax expense	(278,179)	(19,888)	-	(298,067)
Loss for the year	(1,825,768)	(31,804)	(1,593,805)	(3,451,377)
Assets and liabilities				
Segment assets	10,602,155	239,466	6,856,860	17,698,481
Segment liabilities	(1,644,792)	(99,033)	(101,460)	(1,845,285)
Segment net assets	8,957,363	140,433	6,755,400	15,853,196
Capital additions				
Mineral interests[1]	8,966,172	-	525,567	9,491,739
Plant, property & equipment	194,435	93,212	-	287,647
Total capital additions	9,160,607	93,212	525,567	9,779,386

[1] Additions to mineral interests are detailed net of Joint Venture contributions received from Joint Venture partners.

Non-cash expenditure				
Depreciation	(116,590)	(46,493)	-	(163,083)
Share-based payments	-	-	(595,153)	(595,153)
Foreign exchange gain/(losses)	(137,412)	(2,434)	(28,797)	(168,643)
Total non-cash expenditure	(254,002)	(48,927)	(623,950)	(926,879)

6. Reconciliation of Loss

The loss before tax was after charging expenses and receiving income as follows:

	YEAR ENDED 31 MAR 2009 £	YEAR ENDED 31 MAR 2008 £
Investment revenue		
Interest revenue		
- Bank deposits	58,382	336,865
- Loans to suppliers	-	5,409
Total investment revenue	58,382	342,274
Other income		
Gain on deconsolidation – Lithic Metals & Energy Limited	-	327,188
Management fees – Lithic Metals & Energy Limited	11,166	17,730
Rental income	21,697	-
Gain on disposal of fixed assets	-	3,486
Net foreign exchange gain	2,135,985	-
Total other income	2,168,848	348,404
Share of losses of associates		
- Lithic Metals & Energy Limited	-	(223,583)
Total share of losses of associates	-	(223,583)
Other Expenses		
- Auditors' remuneration		
▪ audit services	(29,886)	(51,813)
▪ other services	-	(8,234)
- Bad debts expense	(289,145)	-
- Depreciation of tangible assets	(131,903)	(163,083)
- Lease rentals	(4,040)	(141,498)
- Travel	(203,092)	(315,592)
- Consultants	(199,463)	(43,032)
- Legal costs	(78,044)	(31,835)
- Staff costs :		
▪ salaries & personnel costs	(1,542,138)	(974,116)
▪ superannuation/pension costs – defined contribution	(51,252)	(23,096)
▪ share based payments	(27,400)	(595,153)
- Directors' fees	(50,968)	(50,000)
- Share registry costs	(34,687)	(26,206)
- Public relations	(69,802)	(100,969)
- Contract accounting	(22,856)	(16,487)
- Communications	(45,361)	(42,437)
- Computing	(44,621)	(24,216)
- Insurance	(105,833)	(115,493)
- Printing & stationery	(47,579)	(59,275)
- Office administration costs	(216,732)	(48,173)
- Hire costs	(275,658)	(117,777)
- Regulatory & statutory costs	(79,898)	(41,898)
- Seminars & conferences	(29,035)	(109,751)
- Exploration costs written off	(13,189,721)	-
- Exploration costs expensed	(538,659)	-
- Net foreign exchange losses	-	(168,643)
- Property, plant and equipment written off	(318,066)	-
- Loss on disposal of investments	(686,137)	-
- Loss on disposal of assets	(1,409)	-
- Other costs	(276,248)	(403,587)
Total other expenses	(18,589,633)	(3,672,364)
Total expenses	(18,589,633)	(3,895,947)
Loss before tax	(16,362,403)	(3,205,269)

7. Loss Per Share

The calculation of Group loss per share is based on the loss for the financial year attributable to equity holders of the Parent of £16,366,614 (2008: £3,451,377) and on a weighted average of ordinary shares of 198,108,287 (2008: 178,252,598) plus 13,150,000 options (2008: 12,250,000) on issue.

SHARES	**YEAR ENDED 31 MAR 2009**	**YEAR ENDED 31 MAR 2008**
Basic and dilutive weighted average number of ordinary shares on issue	198,108,287	178,252,598
	£	**£**
Basic and dilutive loss per share	(0.08)	(0.02)

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

Listed Options	3,230,214	-
Staff & director options	13,150,000	12,250,000
	16,380,214	12,250,000

8. Income Tax

Major components of income tax for the period ended 31 March 2009 are as follows:

	YEAR ENDED 31 MAR 2009 £	**YEAR ENDED 31 MAR 2008 £**
Current income tax charge (i)	(4,211)	(298,067)
Deferred income tax	-	-
Income tax expense reported in income statement	(4,211)	(298,067)

(i) Current income tax charge relates to administration services for Group companies in Australia.

The current tax liabilities are as follows:

	YEAR ENDED 31 MAR 2009 £	**YEAR ENDED 31 MAR 2008 £**
Income tax payable	271,599	298,067
	271,599	298,067

A reconciliation of the income tax expense applicable to the loss from operating activities before income tax at the statutory income tax rate to income tax expense at the Consolidated Entity's effective income tax rates is as follows:

	YEAR ENDED 31 MAR 2009 £	**YEAR ENDED 31 MAR 2008 £**
Loss from operating activities before income tax	(16,362,403)	(3,205,269)
At Bermudan statutory income tax rate of 0%	-	-
At Zambian statutory income tax rate of 35% (30% 2008) for mining sector	(4,920,632)	(738,499)
At Australian statutory income tax rate of 30%	(29,343)	(15,508)
At Mozambican statutory income tax rate of 32%	-	(544)
	(4,949,975)	(754,551)
Tax effect of temporary differences on deductibility of expenditure for tax	3,672,334	4,652
Deferred tax assets and liabilities not brought to account	1,273,430	451,832
Income tax expense reported in income statement	(4,211)	(298,067)

Potential deferred tax assets for the Group are attributable to Zambian, Australian and Mozambican tax losses carried forward by the subsidiaries and future benefits to exploration expenditure and other temporary differences allowable for deduction. Deferred tax assets have not been brought to account in the consolidated statements as at 31 March 2009 because the directors are of the opinion that it is not appropriate to regard full realisation of the deferred tax assets as probable. These benefits will only be obtained if:

b) The subsidiaries derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions to be realised; and
b) The subsidiaries continue to comply with the conditions for deductibility imposed by tax legislation; and
b) No changes in tax legislation adversely affect the subsidiaries in realising the benefit from the deduction of the losses.

Unused tax losses not brought to account are as follows:

	YEAR ENDED 31 MAR 2009 £	**YEAR ENDED 31 MAR 2008 £**
Unused tax losses	20,378,835	17,206,155

9. Property, Plant and Equipment

	LEASEHOLD IMPROVE -MENTS	COMPUTERS & OFFICE EQUIPMENT	OFFICE FURNITURE	MOTOR VEHICLES	PLANT & EQUIPMENT	TOTAL
	£	£	£	£	£	£
Depreciation rates	50%	33.33%	33.33%	33.33%	33.33%	
Cost						
As at 1 April 2007	37,913	163,266	47,594	136,478	87,902	473,153
Additions	18,286	158,320	6,339	29,646	75,056	287,647
Disposals	-	(153)	(185)	(67,992)	-	(68,330)
Deconsolidation of Lithic Metals & Energy Limited	-	(6,712)	-	-	(28,191)	(34,903)
As at 1 April 2008	56,199	314,721	53,748	98,132	134,767	657,567
Additions	44,457	61,927	-	-	13,933	120,317
Disposals	-	(3,875)	-	(21,433)	(256)	(25,564)
As at 31 March 2009	100,656	372,773	53,748	76,699	148,444	752,320
Depreciation						
As at 1 April 2007	(22,642)	(83,829)	(31,509)	(63,667)	(30,734)	(232,381)
Provided in the year	(15,889)	(63,937)	(11,608)	(35,445)	(36,204)	(163,083)
Eliminated on disposals	-	111	185	52,212	-	52,508
Deconsolidation of Lithic Metals & Energy Limited	-	506	-	-	18,334	18,840
As at 1 April 2008	(38,531)	(147,149)	(42,932)	(46,900)	(48,604)	(324,116)
Provided in the year	(20,001)	(59,629)	(4,254)	(18,015)	(30,004)	(131,903)
Eliminated on disposals	-	236	-	21,340	99	21,765
Impairment loss charged to profit	(42,124)	(166,231)	(6,562)	(33,224)	(69,935)	(318,066)
As at 31 March 2009	(100,656)	(372,773)	(53,748)	(76,799)	(148,444)	(752,320)
Carrying Amount at 31 March 2008	17,668	167,572	10,816	51,232	86,163	333,451
Carrying Amount at 31 March 2009	-	-	-	-	-	-

10. Mineral Interests

Costs	31 MAR 2009 £	31 MAR 2008 £
As at 1 April 2008	10,931,428	7,525,609
Additions	10,625,953	9,818,152
Joint Venture partner contributions	(5,552,459)	(5,504,966)
Expenditure Written Off	(13,189,721)	-
Deconsolidation of Lithic Metals and Energy Limited	-	(907,367)
As at 31 March 2009	2,815,200	10,931,428

The Company policy is to charge exploration expenditure to specific areas of interest. Exploration expenditure that cannot be attributed to specific areas of interest is written off. The introduction of the copper and cobalt windfall tax in the Zambian budget of April 2008 provided for a very difficult operating environment for producers and explorers. During the year the Government was lobbied from all sectors of the community but the legislation was only amended for the 2009 budget year. As a direct consequence of the introduction of the tax several operations were either closed or levels of operations were significantly diminished. It became very difficult to raise capital in such an environment and the only project that was capable of a modest return after the imposition of the tax was the Kangaluwi project. A further "impairment trigger" over and above the imposition of the windfall tax was the collapse of the commodity prices for base metals in September and October of 2008. The Directors concluded that apart from the Kangaluwi project, the expenditure incurred to date on balance of the projects would be difficult to recover under such circumstances. The impairment decision for the uranium projects was taken by joint venture manager, Lithic Metals and Energy. The segments to which the write off of exploration and evaluation expenditure relates is disclosed in Note 5 'Segmental Information'.

Recoverability of the Consolidated Entity's carrying value of interests in mineral projects is subject to the successful development and exploitation of the exploration properties or alternatively, the sale of these tenements at amounts at least equal to the book values. The ability of the Consolidated Entity to fund the successful development and exploitation of the exploration properties is dependent on the going concern assumptions set out in Note 3 'Going Concern'. Mineral Interests at 31 March 2009 represent the Directors assessment of the recoverable value of the Kangaluwi project. Using the analysis of the drilling results obtained to date the valuation assessment has been performed on the following criteria and key assumptions:

Tonnes	Grade	Contained Copper	Cu lbs (million)
26mt	0.9%	234,600	517
Indicative Value at US$0.5c/lb			US$ 2,585,000
Indicative Value at US$2c/lb			US$ 10,340,000
Indicative Value at US$7c/lb			US$ 36,190,000

The value adopted by the Directors is further supported by other external sources as follows:

- a deemed sale of Kangaluwi based on the unsuccessful Kangaluwi JV agreement with Clarity Capital which provides a value of approximately US$4.8m to US$13.4m (£4.6 to £9.4m)
- value based on a 2% Net Smelter Royalty (NSR), which provides a value of up to approximately US$13.8m (£9.7m)

The Directors have adopted a value of US$4m (£2.8m) which they consider to be reasonable based on the above assessment and which is at the low end of the range.

11. Subsidiaries

The consolidated financial statements include the financial statements of Zambezi Resources Limited and the subsidiaries listed below:

	COUNTRY OF INCORPORATION	CLASS OF SHARE CAPITAL HELD	HOLDING & VOTING CAPACITY (%)		BUSINESS
			31 MAR 2009	31 MAR 2008	
Mwembeshi Resources (Bermuda) Limited	Bermuda	Ordinary	100	100	Exploration
Mwembeshi Resources Limited	Zambia	Ordinary	100	100	Exploration
Zambezi Resources (Australia) Pty Ltd	Australia	Ordinary	100	100	Man. Services
Africa Austral Moçambique Limitada	Mozambique	Ordinary	100	100	Exploration
Southern African Resources Limited[1]	Bermuda	Ordinary	49	100	Exploration
Chalimbana Resources Limited[1]	Zambia	Ordinary	49	100	Exploration
Oryx Resources Limited [1]	Bermuda	Ordinary	49	100	Exploration
Oryx Zambia Limited [1]	Zambia	Ordinary	49	100	Exploration

ACQUISITIONS

There were no acquisitions during the year.

DILUTION OF SHAREHOLDING

[1] On the 28 April 2008 Farm In and Joint Venture Deeds were entered into between Zambezi Resources Ltd and Lithic Metals and Energy Limited whereby 51% of Southern African Resources Limited, Chalimbana Resources Limited, Oryx Resources Limited and Oryx Zambia Limited issued share capitals' were assigned to Lithic Metals and Energy Limited in exchange for a total minimum expenditure of USD$5m for uranium exploration. As at 31 March 2009 the USD$5m threshold has not been achieved and the companies' results are consolidated 100% in the Zambezi Resources Ltd group.

12. Investments accounted for using the equity method

Details of the Consolidated Entity's associates are as follows:

NAME OF ASSOCIATE	COUNTRY OF INCORPORATION	CLASS OF SHARE CAPITAL HELD	OWNERSHIP INTEREST (%)		BUSINESS
			31 MAR 2009	31 MAR 2008	
Cape Resources Limited [1]	Bermuda	Ordinary	49	100	Exploration
Cheowa Resources Limited [1]	Zambia	Ordinary	-	100	Exploration
Lithic Metals & Energy Limited	Bermuda	Ordinary	-	17.5	Exploration

[1] As at 31 March 2008, Zambezi Resources Limited controlled and held 100 percent in the subsidiary, Cape Resources Limited and its subsidiary Cheowa Resources Ltd, therefore consolidating these entities within its financial statements for the year ended 31 March 2008. During the year ended 31 March 2009, as a result of Glencore International AG (Glencore) reaching its joint venture expenditure of USD$16m on the Cheowa and CCB JV projects, Glencore earned 51% of Cape Resources Limited, diluting Zambezi's holding from 100 per cent to 49 per cent and relinquishing management and control of the projects to Glencore. Cape Resources Limited retains a 100 percent interest in Cheowa Resources Limited which is an incorporated joint venture that owns the assets of the Chongwe Copperbelt (CCB)/Chalimbana and Cheowa Projects. Even though Cape Resources was consolidated in the previous year, joint venture contributions were set off against exploration expenditure and hence the net effect on mineral assets was nil. There were no contributions to expenditure by Zambezi. Cape Resources Limited is now classified as an associate. Glencore has 3 seats out of 5 on the board of Cape Resources Limited. Zambezi retains the right to meet Glencore expenditure to avoid dilution. Glencore's current year's contribution has been included in the note on mineral interest, the net effect however is nil.

[2] The investment in Lithic Metals and Energy Limited was sold during the year.

The carrying value of the investment in associates is as follows:

	31 MAR 2009 £	31 MAR 2008 £
Total investment at cost	4,900	1,670,154
Share of losses of associate	-	(531,037)
Net investment in associate	4,900	1,139,117

The prior year Net Investment in associate represents investment in Lithic Metals & Energy. The recoverable value of the investment in Lithic Metals & Energy Limited, based upon the Alternative Investment Market share price at 31 March 2008, was £1,496,810.

Summarised financial information in respect of the Consolidated Entity's associates is set out below:

	31 MAR 2009 £	31 MAR 2008 £
Total assets	516,253	8,423,996
Total liabilities	(273,136)	(296,531)
Net assets	243,117	8,127,465
Group's share of net assets of associates	119,127	1,422,306

	YEAR ENDED 31 MAR 2009 £	YEAR ENDED 31 MAR 2008 £
Total revenue	195	150,380
Total expense	(483,476)	(990,306)
Total loss for year	(483,281)	(839,926)
Group's share of losses of associates	-	(223,583)

Commitments of Lithic Metals & Energy Limited as at 31 March 2008 were as follows:

i) As per a joint venture "Heads of Agreement" with Zambezi Resources Limited, Lithic Metals & Energy Limited was required to contribute in aggregate US$5 million, over a period of 2.5 years, for a 51 percent equity participation in both Oryx (Bermuda) Limited and Southern African Resources Limited and may not withdraw from the joint venture until it has contributed US$3 million.

Lithic Metals & Energy Limited had no contingent liabilities at 31 March 2008.

Cape Resources Limited has no commitments or contingencies at 31 March 2009.

13. Trade & other receivables

	31 MAR 2009 £	31 MAR 2008 £
Current		
Trade receivables	49,156	24,910
GST/VAT receivable	63,500	653,933
	112,656	678,843

Trade receivables are non-interest bearing, have no security held against them and are, on average, on terms of 15 days. As the transactions are with related parties to the Group and are not past their due date or impaired, the credit risk is deemed to be low to medium.

14. Prepayments

	31 MAR 2009 £	31 MAR 2008 £
Current		
Prepayments	11,149	157,919
	11,149	157,919

15. Cash and cash equivalents

	31 MAR 2009 £	31 MAR 2008 £
Bank balances	188,270	4,399,927
Other cash & cash equivalents	-	10,688
	188,270	4,410,615

16. Inventories

	31 MAR 2009 £	31 MAR 2008 £
Consumables stores – at cost	-	47,109
	-	47,109

17. Borrowings

Secured – at amortised cost	31 MAR 2009	31 MAR 2008
	£	£
Current		
Finance lease liabilities (i)	-	10,988
	-	10,988
Non-current		
Finance lease liabilities (i)	-	-
	-	-
	-	10,988

Finance lease liabilities	31 MAR 2009 £	31 MAR 2008 £
No later than 1 year	-	11,172
Later than 1 year and not later than 5 years	-	-
	-	11,172
Less future finance charges	-	(184)
Present value of minimum lease payments	-	10,988

The fair value of the finance lease liabilities approximate their carrying amount.

18. Trade and other payables

	Note	31 MAR 2009 £	31 MAR 2008 £
Current			
Trade and other payables	(i)	1,703,384	111,519
Accrued expenses		22,265	972,233
Accrued indirect taxes	(ii)	7,508	355,006
		1,733,157	1,438,758

Trade payables and accruals are non-interest bearing and have repayment terms within 60 days.

(i) Included in trade and other payables is an amount of £1,586,589 relating to drilling contractors that were converted to equity subsequent to 31 March 2009. For further details, refer to Note 26 'Post Balance Sheet Events'.
(ii) The accrued indirect taxes represents accrual for withholding tax and fringe benefits tax.

19. Provisions

	31 MAR 2009 £	31 MAR 2008 £
Employee benefits (i)	96,624	97,473
Termination costs (ii)	146,511	-
	243,135	97,473

(i) The provision for employee benefits represents annual leave accrued.
(ii) The provision for termination costs represents the present value of the directors' best estimate of the costs directly and necessarily caused by termination of employees that are not associated with the ongoing activities of the entity.

	EMPLOYEE BENEFITS £	TERMINATION COSTS £	TOTAL £
Balance at 1 April 2008	97,473	-	97,473
Additional provisions recognised	461,075	146,511	607,586
Amounts used	(461,924)	-	(461,924)
Balance as at 31 March 2009	96,624	146,511	243,135

20. Issued Capital

Authorised 1,500 million ordinary shares of par £0.01 each, carrying one vote per share and rights to dividends.

	NUMBER OF SHARES	PROCEEDS £	COSTS £	ISSUED CAPITAL £	SHARE PREMIUM £
Issued and fully paid					
As at 1 April 2008	188,185,279			1,881,853	20,730,095
Allotments during the period					
16 September 2008 – 6 pence per share	5,039,128	290,157	(29,934)	50,391	209,832
26 September 2008 – 6 pence per share	4,651,767	267,854	-	46,518	221,336
29 January 2009 – AUD0.02 per share	29,000,000	261,000	-	290,000	(29,000)
Balances as at 31 March 2009	226,876,174	819,011	(29,934)	2,268,762	21,132,263

Listed options

	NUMBER OF OPTIONS	PROCEEDS £	COSTS £	OPTION PREMIUM £
Issued and fully paid				
As at 1 April 2008	-	-	-	-
Allotments during the period				
16 September 2008 – nil per option	1,679,625	-	-	-
26 September 2008 – nil per option	1,550,589	-	-	-
Balances as at 31 March 2009	3,230,214	-	-	-

The listed options were free attaching options offered on a 1 for 3 basis under the rights issue in September 2008 and are exercisable at AUD19 cents expiring 31 August 2009.

Staff share option plan

The Group has a staff option plan for directors and staff of the Group. In accordance with the provisions of the plan as approved by shareholders, eligible directors and staff may be offered equity-settled options at such times on such terms as the Board considers appropriate. Quotation for options will not be sought.

Each staff option converts into one ordinary share of Zambezi Resources Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The movements in options during the periods were as follows:

<u>**Year ended 31 March 2008**</u>	**No of options**	**Exercise price (£)**				
Options outstanding at 1 April 2008	**6,750,000**	0.14[1]				
Options issued during period to:			**Grant date**	**Expiry**	**Vested**	**FV @ grant date (£)**
Directors	2,750,000	0.14	03/04/2008	09/06/2009	03/04/2008	199,100
Employees	2,180,000	0.20	30/08/2008	31/08/2011	30/08/2008	275,988
Employees	1,850,000	0.13	27/03/2009	31/03/2011	27/03/2009	120,065
	6,780,000	0.17[1]				**595,153**[2]
Options exercised during period by:					**Exercised on**	**Share price @ exercise (£)**
Employees	500,000	0.14	06/09/2004	09/06/2009	09/07/2008	0.24
Employees	500,000	0.14	12/03/2008	09/06/2009	09/07/2008	0.24
Employees	80,000	0.165	22/08/2005	22/08/2009	09/07/2008	0.24
Employees	100,000	0.14	09/06/2006	09/06/2009	17/10/2008	0.2225
Employees	100,000	0.20	30/08/2008	31/08/2011	17/10/2008	0.2225
	1,280,000	0.15[1]				
Options outstanding and exercisable at 31 March 2008	**12,250,000**	0.15[1]				
% of issued capital	6.51%					

[1] Weighted average exercise price.
[2] Amount expensed upon issue.

The weighted average remaining contractual life for the options outstanding at 31 March 2008 is 3.32 years.

Assumptions – year ended 31 March 2008

1. The share prices factored into the fair value calculation model were: 3 April 2007 grant date £0.17; 30 August 2007 £0.231; 27 March 2008 £0.105.
2. The expected volatilities factored into the fair value calculation model were: 3 April 2007 55%; 30 August 2007 62.2%; 27 March 2008 103.6%, determined by using a historical sample of the daily share price movement percentages over the useful life. The resultant volatility therefore reflects the assumption that historical volatility is reflective of future trends, which may not necessarily be the actual outcome.
3. Option lives factored into the fair value calculation model were: 2.19 years; 4 years; 3 years.
4. No expected dividends were factored into the fair value calculation model.
5. No early exercises of options in the fair value calculation model were assumed.
6. The risk free interest rates factored into fair value calculation were: 5.46%; 4.25%; 4.63%.
7. The model used in the fair value calculation was the Black Scholes model.

Year ended 31 March 2009	**No of options**	**Exercise price (£)**				
Options outstanding at 1 April 2008	**12,250,000**	0.15[1]				
Options issued during period to:			**Grant date**	**Expiry**	**Vested**	**FV @ grant date (£)**
Directors	1,000,000	0.20	13/08/2008	31/08/2011	13/08/2008	27,400
	13,250,000	0.20				**27,400**[2]
Options lapsed during period :						
Employees	100,000	0.165	22/08/2005	22/08/2008	22/08/2005	5,000
	100,000	0.165				
Options outstanding and exercisable at 31 March 2008	**13,150,000**	0.15[1]				
% of issued capital	5.8%					

[1] Weighted average exercise price.
[2] Amount expensed upon issue.

The weighted average remaining contractual life for the options outstanding at 31 March 2009 is 2.33 years.

Assumptions – year ended 31 March 2009

1. The share price factored into the fair value calculation model was £0.044.
2. The expected volatility factored into the fair value calculation model 145% determined by using a historical sample of the daily share price movement percentages over the useful life. The resultant volatility therefore reflects the assumption that historical volatility is reflective of future trends, which may not necessarily be the actual outcome.
3. Option life factored into the fair value calculation model was 3 years.
4. No expected dividends were factored into the fair value calculation model.
5. No early exercises of options in the fair value calculation model were assumed.
6. The risk free interest rates factored into fair value calculation was 5%.
7. The model used in the fair value calculation was the Black Scholes model.

21. Reserves

a) Share Premium Reserve
The share premium reserve records the amounts paid by shareholders for shares in excess of their nominal value, less any costs incurred in issuing shares.

b) Options & Warrants Reserve
The options & warrants reserve records items recognised as expenses on valuation of staff and director share options and warrants issued to WH Ireland upon admission to AIM in July 2004.

c) Translation Reserve
The translation reserve records exchange difference arising on translation of foreign controlled subsidiaries.

22. Financial Instruments

a) Financial Risk Management objectives and policies

The Group's risk oversight and management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects and ensure that net cash flows are sufficient to support the delivery of the Group's financial targets whilst protecting future financial security. The Group continually monitors and tests its forecast financial position against these objectives and may undertake forward-rate agreements when necessary to ensure the objectives are achieved.

The Group's activities expose it to a variety of financial risks; market, credit and liquidity. These risks are managed by senior management in line with policies set by the Board. The Group's principal financial instruments comprise cash and short term deposits. Other financial instruments include trade receivables and trade payables, which arise directly from operations.

It is, and has been throughout the period under review, Group policy that no speculative trading in financial instruments be undertaken.

b) Market risk

Interest Rate Risk

The Group is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The Group manages this risk by maintaining an appropriate mix between fixed and floating rate instruments. The effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:

31 March 2008	Weighted Ave Effective Int Rate %	Less than 1 month £	1 month – 1 year £	1 – 5 years £	5+ years £	Total £
Financial Assets						
Non-interest bearing	-	689,531	-	-	1,139,117	1,828,648
Variable interest rate instruments	5.3	766,579	-	-	-	766,579
Fixed interest rate instruments	5.4	3,633,348	-	-	-	3,633,348
Total Financial Assets		5,089,458	-	-	1,139,117	6,228,575
Financial Liabilities						
Non-interest bearing		1,083,752	-	-	-	1,083,752
Lease liabilities	4.3	-	10,988	-	-	10,988
Total Financial Liabilities		1,083,752	10,988	-	-	1,094,740

Financial assets are classified based upon their expected maturity whilst financial liabilities are classified based upon their contractual maturity.

31 March 2009	Weighted Ave Effective Int Rate %	Less than 1 month £	1 month – 1 year £	1 – 5 years £	5+ years £	Total £
Financial Assets						
Non-interest bearing		123,805	-	-	4,900	128,705
Variable interest rate instruments	2.0	188,270	-	-	-	188,270
Fixed interest rate instruments	-	-	-	-	-	-
Total Financial Assets		312,075	-	-	4,900	316,975
Financial Liabilities						
Non-interest bearing		1,725,649	-	-	-	1,725,649
Total Financial Liabilities		1,725,649	-	-	-	1,725,649

Financial assets are classified based upon their expected maturity whilst financial liabilities are classified based upon their contractual maturity.

Currency risk

The Group has subsidiaries operating in Africa and Australia, whose businesses are conducted predominantly in Zambian Kwacha and US dollars, and Australian Dollars, respectively, exposing the Group to exchange rate fluctuations.

The Group manages this risk by monitoring foreign exchange rates, maintaining the majority of cash assets in Pounds Sterling, and limiting the amounts transferred to the subsidiaries to that which is required to sustain operations. The Consolidated Entity has not entered into any derivative financial instruments to hedge such transactions.

Foreign exchange differences on retranslation of the foreign subsidiaries' assets and liabilities are taken to the translation reserve.

At year end the Group has £97,668 (2008: £289,014) of monetary assets held in US dollars, £46,166 (2008: £242,865) in Zambian Kwacha, £- (2008: £522) in Mozambique Meticais and £98,430 (2008: £153,238) in Australian Dollars, the remainder being held by the Parent Company in Pounds Sterling. The maximum exposure to credit risk is represented by the carrying amount of each of these assets in the balance sheet.

The following table summarises the sensitivity of financial instruments held at the balance sheet date to movements in the exchange rate of the Zambian kwacha and Australian dollar to the US dollar, with all other variables held constant. The sensitivities are based on an analysis of actual historical rates for the preceding five year period.

	IMPACT ON PROFIT		IMPACT ON EQUITY	
	31 MARCH 2009	**31 MARCH 2008**	**31 MARCH 2009**	**31 MARCH 2008**
	£	**£**	**£**	**£**
ZMK/GBP +10%	8,328	72,384	-	-
ZMK/GBP -10%	(8,328)	(72,384)	-	-
AUD/GBP +5%	4,922	437	-	-
AUD/GBP -5%	(4,922)	(437)	-	-
USD/GBP +10%	(5,996)	(40,013)	-	-
USD/GBP -10%	5,996	40,013	-	-
			-	

c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Due to the current nature of the Group's operations there is no significant concentration of credit risk. However, as detailed in Note 3 'Going Concern', the company is dependent on receipt of funds from LinQ under a Note Subscription Agreement to continue as a going concern and is therefore exposed to credit risk in that there is a potential risk that LinQ could default on its contractual obligations under the agreement. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Consolidated Entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

d) Capital Risk Management

The Consolidated Entity manages capital to ensure that companies in the Consolidated Entity will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt to equity balance. The Consolidated Entity's focus has been to raise sufficient funds through equity to fund exploration activity.

Given the financial position of the Consolidated Entity as detailed in Note 3 'Going Concern', the company's strategy is to raise sufficient funds through equity to allow it to continue as a going concern. Once the financial position of the Consolidated Entity has been stabilised, the Consolidated Entity will focus on raising additional funds to allow exploration activity to continue. The Consolidated Entity's overall strategy remains unchanged from 2008, however, as a result of the change in the economic environment during the current year and the significant decrease in the working capital of the Consolidated Entity, significant focus has been place on securing funding through a number of alternatives sources to allow the Consolidated Entity to continue as a going concern. Risk management policies and procedures are established with regular monitoring and reporting.

The ability of the Consolidated Entity to continue as a going concern and to pay its debts as and when they fall due is dependent on a certain events taking place as detailed in Note 3 'Going Concern'.

e) Liquidity risk

Liquidity risk refers to the risk that the Group will have insufficient funds to meet its operational requirements. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate liquidity levels are maintained. As detailed in Note 3 'Going Concern', there is significant uncertainty whether the Consolidated Entity will be able to continue as a going concern and the ability of it to do so is dependent on certain events taking place. During the year ended 31 March 2009 and to the date of this report, the Directors have taken steps to ensure the Consolidated Entity has sufficient funds to continue as a going concern, including reductions in expenditure, settlement of major drilling contractors with equity subsequent to year end (refer to Note 26 'Post Balance Sheet Events'), and entering into a Note Subscription Agreement with LinQ Resources Fund for expected proceeds of A$1,000,000.

The undiscounted contractual or expected maturities of the financial assets and liabilities are detailed in the table at note 22(b).

f) Net Fair Values

Monetary financial assets and liabilities not readily traded in an organised financial market have been valued at cost, which approximates fair value.

The carrying amount of bank deposits accounts receivable and accounts payable approximate net fair value.

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	31 MAR 2009 £	31 MAR 2008 £
Financial Assets		
Cash and cash equivalents	188,270	4,410,615
Trade and other receivables	112,656	678,843
Investments in associates – equity accounted[1]	4,900	1,139,117
	305,826	6,228,575
Financial Liabilities		
Lease liabilities	-	10,988
Trade and other payables	1,733,649	1,438,758
	1,733,649	1,449,746

[1] Market value of investment in associates at 31 March 2008 was £1,496,810.

23. Capital Commitments

The Group had no contracted capital commitments at 31 March 2009 (2008: Nil).

24. Commitments and Contingencies

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

	31 MAR 2009 £	31 MAR 2008 £
Less than one year:	135,900	152,607
Between one and five years:	5,865	181,826
	141,765	334,433

The Group leases its Australian offices under an operating lease. The current lease runs for another two year period with an option to renew for a further three year period after that date.

Novated leases: lease rentals are payable as follows:

	31 MAR 2009 £	31 MAR 2008 £
Less than one year:	-	1,968
Between one and five years:	-	-
	-	1,968

The Group had no contingent liabilities at 31 March 2009 (2008: Nil).

25. Related Parties

Subsidiaries

The subsidiaries and associates of the Group are identified in Notes 11 and 12. Transactions between the company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Directors

The Directors of the Company during the year, and up to the date of this report, were as follows:

Brian Rear
Julian Ford
Geoffrey Johnson
Jeremy Wrathall – resigned 17 October 2008

Related party transactions

Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the period was as follows:

	31 MAR 2009 £	31 MAR 2008 £
Short term benefits	390,750	525,928
Post employment benefits	-	24,000
Share based payments	27,400	294,850
	418,150	844,778

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

26. Post-balance Sheet Events

Effective 1 June 2009, the Company's shares were removed from quotation on the AIM market after being suspended from trading since 3 November 2008.

On 22 June 2009, shareholders approved the issue of 161,685,161 ordinary shares at a deemed issue price of A$0.02 per share to the Consolidated Entity's major drilling creditors to convert A$3,233,704 of debt to equity. No funds were raised as a result of the issue and the financial effect of the event has not being brought to account at balance date.

On 13 July 2009, the Company signed a Converting Note Agreement with LinQ Resources Fund (LinQ) for A$1,000,000. The converting notes will automatically convert at A$0.005 with a maturity date of 31 December 2010 and will be secured against the Company's Zambian assets. The Converting Notes will be issued in two tranches – Tranche A will be for 58 million shares to raise A$290,000 and Tranche B will be for 142 million shares to raise A$710,000. The notes will bear interest at 12% per annum, payable monthly in arrears and interest will be payable in shares at A$0.005 per share. The subscription for the converting notes is subject to the following conditions precedents:

a) **due diligence**: the completion of any financial, legal and technical due diligence investigations with respect to the Group;
b) **executed agreements**: an original of the Note Subscription Agreement and the Share Mortgage, duly executed by each Party and, where applicable, stamped, filed and registered, together with, in respect of the Share Mortgage the consent of the Bermuda Monetary Authority, the share certificates of the shares the subject of the Share Mortgage and blank transfer forms in respect of those shares and evidence that the bye-laws of Mwembeshi Resources Limited have been amended to remove any discretion of the directors of that company to refuse to register a transfer of shares arising in connection with the Share Mortgage;
c) **verification certificate**: a verification certificate given by 2 directors of the Company;
d) **ministerial consent**: evidence that the Minister under the Zambian Mining Act has, for the purposes of section 104 of the Zambian Mining Act, given his consent to any change of control of the Company or Mwembeshi Resources Limited (including a change of control arising by virtue of the LinQ **(Subscriber)** appointing or being entitled to appoint more than half the directors of the Company);
e) **termination of mandates**: evidence that any current mandate with any third party (including Somerly China Association Limited) relating to advice and/or the raising of new debt or equity capital for a Group Member has been terminated, and that no payment is triggered as a consequence of termination and there are no remaining contingent payments;
f) **extinguishment of creditors**: evidence that:
    a. a shareholders' meeting of the Company held on 22 June 2009 resolved to approve the issue to those creditors (**Creditors**) set out in the notice papers convening that meeting Shares (**Creditor Shares**) at an issue price of A$0.02 per Share in full and final settlement of the moneys due to those Creditors (**Moneys Due**); and
    b. that each Creditor has entered into an agreement with the Company agreeing to extinguish its claims for the Moneys Due upon issue of the Creditor Shares; and
    c. all Creditor Shares have been issued to the Creditors;
g) **resignation and appointment of directors**: evidence that new directors (being nominees of the Subscriber) have been appointed as directors of the Company in such number so that the board of directors of the Company comprises a majority of the Subscriber's nominees, and that Mr Geoffrey Johnston has agreed to resign as a director of the Company (together with a signed but undated resignation letter), and Mr Julian Ford has provided a signed but undated resignation letter (it being contemplated that Mr Julian Ford will remain a non-executive director until otherwise directed by the Subscriber);
h) **consulting services**: Mr Julian Ford has agreed to provide consulting services to the Company on arms length commercial terms (being at rates of $1,000 per day for a minimum of 5 days per month, and a minimum of 6 months);

i) **annual accounts**: the annual accounts of the Company for its financial year ended 31 March 2009 have been completed and signed-off by the existing directors (as at the date of this agreement) of the Company, an unqualified opinion from the auditors of the Company has been provided in respect of those accounts, and its annual report has been lodged with ASX; and
j) **other approvals**: evidence that, to the extent required by the Company in respect of the transactions contemplated by the Note Subscription Agreement or the Notes, all necessary shareholder and other approvals have been obtained.

Additional conditions precedent for Tranche B Notes

a) **listing of Shares**: if the Shares are suspended or otherwise not listed for trading on ASX, evidence that the Shares have been reinstated for trading on ASX, or are capable of being so reinstated for trading subject only to a written request from the Company being made by the Company to ASX together with, if applicable, evidence that the Company has written to ASX requesting reinstatement;
b) **shareholder approval**: evidence that the shareholders of the Company have approved the issue of the Tranche B Notes to the Subscriber (and the issue of Shares on their conversion) and the issue of the Options for the purposes of Listing Rules 7.1 and 10.11 and for all other required purposes;
c) **Share Mortgage consents**: for the purposes of the Share Mortgage:
    a. evidence that the bye-laws of Cape Resources Limited, Southern African Resources Limited and Oryx Resources Limited have been amended to remove any discretion of the directors of those companies to refuse to register a transfer of shares arising in connection with the Share Mortgage; and
    b. evidence that the shareholders of Cape Resources Limited, Southern African Resources Limited and Oryx Resources Limited (other than the Company) have each consented the grant of the Share Mortgage over the shares in those companies; and
d) **other**: evidence that any conditions precedent which were waived for the purposes of clause 2.1 of the Note Subscription Agreement have been satisfied, and receipt by the Subscriber of any other certificates, authorisations, documents, matters or things which the Subscriber, in its reasonable discretion, requires.
e) Under the terms of the agreement, LinQ will be granted 50 million options and may appoint Directors to the Board of the Company up to a majority of the Board. The 50 million options will have an exercise price of A$0.01 per share and expire 8 years after issue. Both the options and the Tranche B converting notes are subject to shareholder approval.

27. Company details

The registered office of the company is:

Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

The principal activity is the exploration for copper, gold and uranium in sub-Saharan Africa.

The principal places of business are:

17 Ord Street
West Perth
Western Australia, 6005
Australia

28. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 30 July 2009.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED
31 MARCH 2009

In accordance with a resolution of the board of Directors of Zambezi Resources Limited, I state that:

In the opinion of the Directors:

a) the financial statements and notes of the Consolidated Entity:

   (i) give a true and fair view of the financial position as at 31 March 2009 and the performance for the year ended on that date of the Consolidated Entity; and

   (ii) comply with International Financial Reporting Standards,

b) there are reasonable grounds to believe, based on the reasons set out in Note 3 'Going Concern', that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Julian Ford
Managing Director
30 July 2009