

June 2014 Quarterly Operations Report & Appendix 5B

1.0 Operations Review

1.1 Kangaluwi Copper Project

1.1.1 Court Case

During this quarter as announced on 9 June 2014 the Company advised that Mr Justice I Chali has been appointed by the Lusaka High Court in Zambia to preside over the court proceedings after the previous Judge Mr Justice Kondolo SC recused himself. A Status Conference was convened by Justice Chali who stated that he had read all documents on file and could see no need for any further information or witnesses. The appeal had been listed for hearing in the Lusaka High Court on 16 July 2014.

The High Court ruled the appeal hearing to proceed on 16 July 2014 on “affidavit material only” - a position accepted by all parties. Shortly before the appeal hearing the conservation groups lodged an appeal to the Supreme Court against the decision of the High Court to proceed on 16 July 2014 as ordered even though they had previously accepted the ruling. The High Court adjourned the matter to 23 July 2014.

On 24 July 2014 (as announced), the Appellants’ application to stay the High Court proceedings pending the determination of their appeal in the Supreme Court was argued and opposed by the Company. Judgment was reserved and will be handed down on 29 September 2014. If the Company is successful in opposing this application it means that the current appeal in the High Court of Lusaka will not be stayed and will be continued to its conclusion even though there is an appeal pending to the Supreme Court of Zambia against an interlocutory decision handed down by the Appeal Judge (Refer ASX announcement dated 18 July 2014).

The Company's application now on foot to discharge the order staying the decision of the Minister of Lands, Natural Resources and Environmental Protection to allow the Company to develop its 100% owned Kangaluwi Copper Project in the Lower Zambezi National Park in Zambia will be argued on 29 September 2014.

Court Case Background

The appeal hearing in the High Court of Lusaka referred to above relates to the appeal lodged by certain conservation groups against a decision of the Minister of Lands, Natural Resources and Environmental Protection to allow the Company to develop its 100% owned Kangaluwi Copper Project in the Lower Zambezi National Park in Zambia. In the appeal the Zambian Government is the first respondent and Mwembeshi Resources Ltd, a wholly owned subsidiary of Zambezi, is the second respondent.

1.1.2 Project Background



Figure 1: Kangaluwi Project Location Map

About the Kangaluwi Copper Project:

Zambezi Resources Limited (“the Company”) is an ASX listed Copper Exploration and Development Company focused on its 100% owned Kangaluwi Copper Project, 180

km east of Lusaka, Zambia. The project is covered by a 245 km² Mining Licence (ML 15547), issued on 16 March 2011 and valid for 25 years.

The project covers the copper deposits of Kangaluwi, Chisawa and Kalulu. Drilling carried out at these prospects lead to estimation and reporting of Mineral Resource estimates in July 2012 (Table 1). The Mineral Resource estimates were classified and reported in accordance with the JORC Code.

Table 1: Kangaluwi Copper Project Mineral Resource at 0.3% Cu Cut-off Grade

Resource Category	Tonnes (Mt)	Cu (%)
Indicated	18	0.58
Inferred	28	0.72
Total	46	0.67

1.2 Mpande Limestone Project

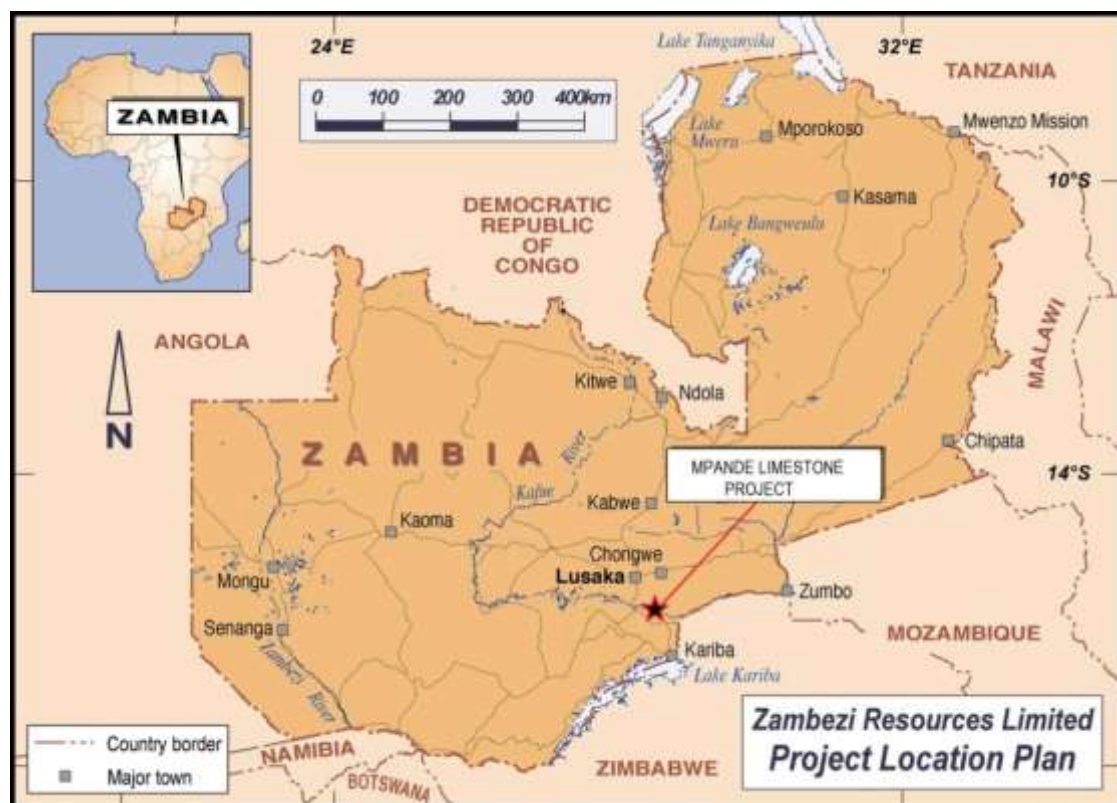


Figure 2: Mpande Limestone Project Location Map

1.2.1 Mpande Limestone Project Background

Mpande Limestone Limited (“MLL”), a wholly owned subsidiary of MRL (100% owned by ZRL) is a Zambian registered company that was formed in June 2008.

MLL has a 50% interest in the Limestone Farmin and Exploration Joint Venture with Limestone Ventures Pty Ltd.

The Joint Venture proposes to construct and operate a cement and quick/hydrated lime facility within its 143.5 km² licence area 13173-HQ-LPL, in Kafue District, Lusaka Province of Zambia.

Drilling results from the Mpande Limestone Project confirms a large limestone deposit of high quality material and suitable for cement production.

On 15 February 2013, MLL applied for a Large Scale Mining Licence. The EIS was approved on 20 June 2014 by the Zambia Environmental Management Agency and is awaiting the issue of the Large Scale Mining Licence.

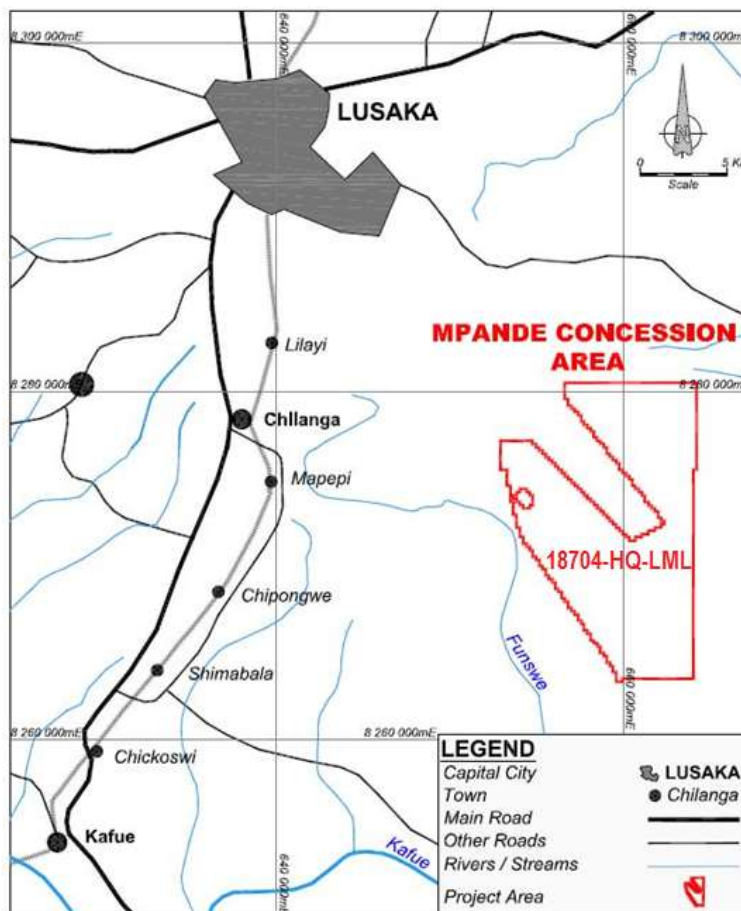


Figure 3: Mpande Concession Area

1.2.2 Environmental Impact Study

The Company finalised the Environmental Impact Study (“EIS”) and the Resettlement Action Plan (“RAP”) which was lodged on 25 October 2013.

The implementation of a limestone mining operation and with a view to ensuring safety, some households will be affected and therefore there is the need to relocate the affected persons.

The RAP is to ensure that the socio-economic impacts of the affected persons are identified and mitigated before and during the relocation program.

All affected people have agreed to proceed with the project and approval was obtained by the Royal Council.

The Zambia Environmental Management Agency (“ZEMA”) approved on 20 June 2014 the Mpande Limestone Project’s Environmental Impact Study (“EIS”) after an extensive and thorough process which included review of technical information, site inspections and public consultations.

With the approval of the EIS, the Mines Development Department is expected to grant the Mpande Mining Licence in the next quarter.

2.0 Corporate

2.1 Term Sheet

On 5 June 2014, the Company announced that it has entered into a binding term sheet (“Term Sheet”) with its major shareholder, Auctus Resources Fund (“ARF”).

Pursuant to the Term Sheet ARF has agreed:

1. To increase its commitment under the existing Facility Agreement between ARF, the Company and others dated 20 August 2012 by AUD\$500,000 taking the aggregate principal outstanding to AUD\$2.4m (**“Amended Facility Agreement”**).

Drawdown under the Amended Facility Agreement will be subject to ZRL and/or its Directors raising an additional AUD\$300,000 in fresh capital and completion of formal documentation;

2. To extend the termination date of the Amended Facility Agreement to 31 December 2015;
3. To extend the repayment date of Tranche A of the convertible note deed dated 13 September 2011 ("**Convertible Note Deed**") from 1 July 2014 to 31 December 2015; and
4. To suspend the interest charged under the Amended Facility Agreement and the Convertible Note Deed for a period of 12 months commencing on 1 July 2014 ("**Suspension Period**"). Interest will resume should ZRL receive a cash inflow of at least AUD\$5m within the Suspension Period.

2.2 General Meeting

On 25 June 2014, the Company held an EGM to which shareholders have approved the following resolutions:-

1. Approval of Placement to issue up to 10,000,000 shares
2. Participant in Placement by a Director – David Vilensky
3. Participant in Placement by a Director – Frank Vanspeybroeck
4. Participant in Placement by a Director – Marinko Vidovich
5. Approval of Issue of Shortfall Shares to a Director – David Vilensky
6. Approval of Issue of Shortfall Shares to a Director – Frank Vanspeybroeck
7. Approval of Issue of Shortfall Shares to a Director – Marinko Vidovich

The issue price of the Placement shares will be no less than 85% of the VWAP of Zambezi shares for the last 5 trading days.

2.3 Share Placement

On 25 July 2014, the Company announced the placement of 2,727,273 ordinary shares at an issue price of A\$0.11 to sophisticated investors and directors of the Company in accordance with Resolutions 1 to 4 of the Notice and General Meeting held on 25 June 2014.




On 28 July 2014 the Company announced the placement of 2,272,727 ordinary shares at an issue price of A\$0.11 to sophisticated investors in accordance with Resolution 1 of the Notice and General Meeting held on 25 June 2014.

The funds raised from the placements will be applied towards working capital and investment capital for the Company, primarily in relation to ongoing evaluation and development of the Company's Zambian projects.

3.0 Tenements



3.1 Mwembeshi Resources (a wholly owned Subsidiary of Zambezi Resources)

There are three licences held by Mwembeshi Resources Ltd, as follows:

-  Large Scale Mining Licence – Kangaluwi - 15547-HQ-LML for a period of 25 years.
-  Kamona 13148-HQ-LPL
-  Rufunsa 13149-HQ-LPL




3.2 Mpande Limestone (50% ZRL and 50% Limestone Ventures Pty Ltd)

There are two prospecting licences under Mpande Limestone which are currently awaiting confirmation of conversion to a Large Scale Mining Licence (submitted 15 February 2013):

-  Mpande A 13172-HQ-LPL
-  Mpande B 13173-HQ-LPL

3.3 Cheowa Resources (Zambezi 49% and Glencore 51%)

There are three licences held under Cheowa Resources:

-  Chalimbana 13170-HQ-LPL
-  Chayinda 13171-HQ-LPL
-  Cheowa 8573-HQ-LPL

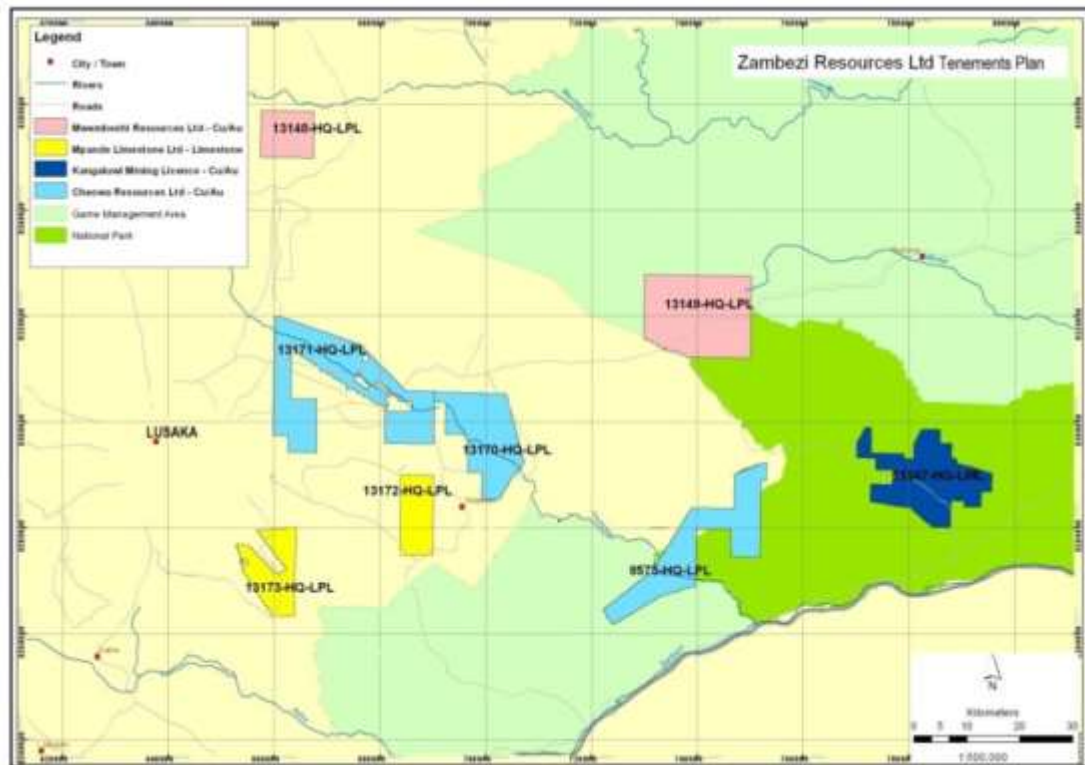
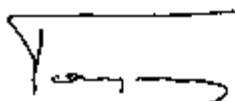


Figure 4: Tenement Map

4.0 Competent Persons Statement

The information in this report relating to Mineral Resources was compiled by Mr Dean Carville who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Carville is a full-time employee of AMC Consultants Pty Ltd and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2012 Australasian Code for the reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2012 Edition. Mr Carville consents to the inclusion of this information in the form and context in which it appears.

The information in this announcement that relates to Exploration Results is based on information compiled by Robert McPherson, Country Manager – Geology, Zambia. Robert McPherson is employed as a Geologist for Zambezi Resources and is also a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2012 Australasian Code for the reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2012 Edition. Robert McPherson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



Zambezi Resources Limited
Frank Vanspeybroeck
Managing Director
Tel: +61 8 6555 1879

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

ZAMBEZI RESOURCES LIMITED

ARBN

124 462 826

Quarter ended ("current quarter")

30 JUNE 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(243)	(243)
(b) development	-	-
(c) production	-	-
(d) administration	(238)	(238)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (VAT & GST Refunds)	25	25
Net Operating Cash Flows	(456)	(456)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments		
(c) other fixed assets		
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(456)	(456)

+ See chapter 19 for defined terms.

Appendix 5B**Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(456)	(456)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	86	86
	Net financing cash flows	86	86
	Net increase (decrease) in cash held	(370)	(370)
1.20	Cash at beginning of quarter/year to date	488	488
1.21	Exchange rate adjustments to item 1.20	1	1
1.22	Cash at end of quarter	119	119

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	78
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	N/A	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	500	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	150
4.2 Development	-
4.3 Production	-
4.4 Administration	100
Total	250

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	109	478
5.2 Deposits at call	10	10
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	119	488

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	N/A		
6.2	Interests in mining tenements and petroleum tenements acquired or increased	N/A		

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	+Ordinary securities	26,924,291	26,924,291	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs			
7.5	+Convertible debt securities (description)			

+ See chapter 19 for defined terms.

Appendix 5B

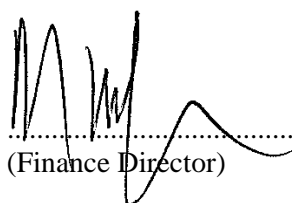
Mining exploration entity and oil and gas exploration entity quarterly report

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options <i>(description and conversion factor)</i>	25,000 300,000	- -	<i>Exercise price</i> AUD\$1.00 AUD\$0.44	<i>Expiry date</i> 30.06.14 17.10.15
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	(25,000)	-	AUD\$1.00	30.06.14
7.11	Debentures <i>(totals only)</i>	-	-		
7.12	Unsecured notes <i>(totals only)</i>	-	-		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:



(Finance Director)

Date: 31.07.2014

Print name: Marinko Vidovich

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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