

AFRICO RESOURCES LTD.

Consolidated Financial Statements
(Stated in US Dollars)

December 31, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Africo Resources Ltd. and its subsidiaries are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates, which have been made using careful judgment.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

In fulfilling their responsibilities, management of the Company and its subsidiaries has developed and continues to maintain systems of internal accounting controls that are appropriate in the circumstances. Although no cost effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements principally through its audit committee, comprising management and outside directors. The audit committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Company's auditors have full access to the audit committee, with and without management being present.

These financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, and their report follows.

"Antony Harwood"

Antony Harwood
President and Chief Executive Officer
March 25, 2009

"Michael O'Brien"

Michael O'Brien
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Africo Resources Ltd.

We have audited the consolidated balance sheets of Africo Resources Ltd. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss, deficit, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia, Canada
March 25, 2009

AFRICO RESOURCES LTD.

Consolidated Balance Sheets

(Stated in US Dollars)

	December 31, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	\$ 52,876,823	\$ 5,516,295
Short term investments	24,731,839	-
Accounts receivable and prepayments	296,658	248,047
Total Current Assets	77,905,320	5,764,342
Other assets	15,577	27,559
Mineral properties (note 6)	52,071,128	28,900,007
Total Assets	\$ 129,992,025	\$ 34,691,908
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,864,192	\$ 885,241
Total current liabilities	1,864,192	885,241
Asset Retirement Obligation (note 7)	210,876	202,560
Future income tax liability (note 11)	10,949,034	3,856,292
Total Liabilities	13,024,102	4,944,093
Shareholders' equity		
Common Shares (note 8)	133,042,257	33,392,832
Contributed Surplus (note 8)	5,331,673	4,033,408
Warrants (note 8)	11,525,231	2,718,496
Deficit	(16,385,972)	(10,396,921)
Accumulated other comprehensive loss	(16,545,266)	-
Total Shareholders' Equity	116,967,923	29,747,815
Total Liabilities and Shareholders' Equity	\$ 129,992,025	\$ 34,691,908

Subsequent Events (Note 12)

See accompanying notes to the interim consolidated financial statements

Approved by the Board of Directors:

*"Matthew Fisher"*Matthew Fisher
Director*"Douglas Ryan"*Douglas Ryan
Director

AFRICO RESOURCES LTD.Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Stated in US Dollars)

	Year ended December 31, 2008	Year ended December 31, 2007
Expenses		
General and administrative costs	\$ 5,187,909	\$ 3,798,330
Professional fees	1,398,364	1,375,022
Stock based compensation (note 8)	135,000	1,604,096
Stock exchange, filing and transfer agents fees	137,611	125,695
Travel	539,279	373,390
Loss before other items:	(7,398,163)	(7,276,533)
Foreign exchange gain	243,204	1,199,685
Interest and other income	1,165,908	352,422
Loss on equity accounted investment (note 5)	-	(167,489)
Loss for the year	\$ (5,989,051)	\$ (5,891,915)
Deficit, beginning of the year	(10,396,921)	\$ (4,505,006)
Deficit, end of the year	(16,385,972)	\$ (10,396,921)
Basic and diluted loss per common share		
	\$ (0.13)	\$ (0.23)
Weighted average number of common shares outstanding	47,114,787	25,241,107
Comprehensive Loss		
Loss for the year before comprehensive income	\$ (5,989,051)	\$ (5,891,915)
Unrealised loss on available for sale financial instruments	(16,545,266)	-
Comprehensive Loss for the year	\$ (22,534,317)	\$ (5,891,915)
Accumulated Other Comprehensive Loss		
Balance, beginning of year	\$ -	\$ -
Unrealised loss on available for sale financial instruments	16,545,266	-
Balance, end of year	\$ (16,545,266)	\$ -

See accompanying notes to the consolidated financial statements

AFRICO RESOURCES LTD.

Consolidated Statements of Cash Flows

(Stated in US Dollars)

	Year ended December 31, 2008	Year ended December 31, 2007
Operating Activities		
Net loss for the year	\$ (5,989,051)	\$ (5,891,915)
Adjustment for items which do not involve cash:		
Stock based compensation	135,000	1,604,096
Loss on equity accounted investment	-	167,489
	(5,854,051)	(4,120,330)
Changes in non-cash working capital components:		
Other accounts receivable and prepayments	(48,611)	(95,987)
Accounts payable and accrued liabilities	194,940	(570,483)
Cash used in operating activities	(5,707,722)	(4,786,800)
Investing Activities		
Funds held in trust	-	1,223,734
Short term investments	(24,731,839)	-
Deferred mineral property costs	(4,329,161)	(8,165,859)
Acquisition of assets of subsidiary net of cash acquired (note 5)	-	(930,190)
Cash used in investing activities	(29,061,000)	(7,872,315)
Financing Activities		
Common shares and warrants issued for cash – net of share issue expenses	98,674,516	4,944,108
Cash provided by financing activities	98,674,516	4,944,108
Net increase (decrease) in cash and cash equivalents during the year	63,905,794	(7,715,007)
Cash and cash equivalents, beginning of year	5,516,295	13,231,302
Unrealised loss on available for sale financial instruments	(16,545,266)	-
Cash and cash equivalents, end of year	\$ 52,876,823	\$ 5,516,295

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007

(Stated in US Dollars)

1. NATURE OF OPERATIONS

Africo Resources Ltd. (“the Company” or “Africo”) is a mineral resource company engaged in exploring, acquiring and developing precious metal and base metal properties. These activities are conducted principally in the Democratic Republic of the Congo (“DRC”).

The recoverability of the cost of mineral properties and related deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, preservation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the project, and future profitable production, or alternatively, upon the Company’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require a material reduction in the carrying amounts of mineral properties.

The mineral properties are also subject to title and sovereign risks, including political and economic instability, government regulations relating to mining, civil disorder, currency fluctuations and inflation, all or any of which may impede the Company’s activities or may result in the impairment or loss of part or all of the Company’s interest in the properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles accepted in Canada. These consolidated financial statements include the accounts of Africo Resources Ltd and its material wholly owned subsidiaries, Africo Resources (B.C.) Ltd, Kisankala Mining Corp., H&J Swanepoel Family Trust s.p.r.l. (H&J), and Swanmines s.p.r.l.. All significant inter-company transactions are eliminated on consolidation.

The accounting policies followed by the Company are set out below and have been consistently followed in the preparation of these consolidated financial statements as compared to prior years, except that the Company has adopted effective 1 January 2008 CICA guidelines described in Note 3.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant areas where management’s judgment is applied include asset and investment valuations, contingent liabilities including matters in litigation, tax provisions and future tax balances including valuation allowances in respect of future tax balances, asset retirement obligations and other environmental liabilities and accrued liabilities. Actual results could differ from these estimates.

Foreign Currency Translation

The functional currency of the Company is US dollar. The Company has significant exposure to fluctuations between the US dollar and other currencies as its cash and cash equivalents and short term investments are held in Canadian Dollars.

The Company follows the temporal method of accounting for the translation of the financial position and results of integrated foreign subsidiaries. Under this method monetary assets and liabilities are translated into US dollars at the exchange rate in effect at balance sheet date; non-monetary assets and liabilities are

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007

(Stated in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

recorded at historical rates; and revenues and expenses are translated at approximate exchange rates prevailing on the dates of the respective transactions, except for amortization which is recorded at historical rates. Gains or losses on translation, except those relating to available for sale investments, are included in the consolidated statement of operations.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term notes and bank deposits with an original maturity of three months or less.

Short term investments

Short term investments comprise Guaranteed Investment Certificates (GIC's) with original maturities ranging from four to twelve months.

Mineral Property Expenditures

Direct costs related to the acquisition and exploration of mineral properties held or controlled by the Company are deferred on an individual property basis until the viability of a property is determined or until the property is sold, abandoned or impaired. Administration costs and general exploration costs are expensed as incurred. When a property is placed into production, deferred costs will be depleted using the units-of production method.

The Company performs impairment tests on its properties when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. These tests compare expected undiscounted future cash flows from these assets to their carrying values. If shortfalls exist, assets are written down to the discounted value of the future cash flows based on the Company's average cost of borrowing.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, or title may be affected by undetected defects.

Asset Retirement Obligations

Asset retirement obligations are recognized when a legal or constructive obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability will be accreted up to its expected settlement value through periodic charges to earnings.

Share Capital

Common shares issued for non-monetary consideration are recorded at management's estimate of fair market value.

Warrants

The fair value of warrants issued is estimated on the date of grant and the value is recorded as a separate component of equity.

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007
(Stated in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income Taxes

The Company accounts for tax consequences of the differences in the carrying amounts of assets and liabilities and their tax bases using tax rates expected to apply when these temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no future income tax asset is recognized. The Company has taken a valuation allowance against all such potential tax assets.

Stock-based Compensation

The Company accounts for its stock-based compensation plans in accordance with the recommendations of CICA Accounting Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*", which requires the fair value based method of accounting for all stock-based compensation awarded during the year. Under this method, the fair value of options granted to employees is estimated on the date of grant and is recognized as compensation expense over the vesting period of the options. Consideration paid on exercise of stock options is credited to share capital.

Basic and diluted earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding. The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. Stock options and warrants are included in the calculation of diluted per share amounts only to the extent that the average market price of the common shares during the year exceeds the exercise price of the options or warrants. During years when the Company generates a loss, the potential shares to be issued from the assumed exercise of options and warrants are not included in the computation of diluted per share amounts because the result would be anti-dilutive.

Recent Canadian Accounting Pronouncements

Recent Canadian accounting pronouncements that have been issued but are not yet effective, and which may affect the Company's financial reporting are summarized below:

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section will be applicable to the Company's consolidated financial statements for its fiscal year beginning January 1, 2009. The Company does not expect that the adoption of this section will have a material impact on its consolidated financial statements.

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which replaces the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These statements apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company is currently evaluating the new sections to determine the potential impact on its consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January, the CICA issued EIC – 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company does not expect that the adoption of this section will have a material impact on its consolidated financial statements.

3. ADOPTION OF NEW CANADIAN ACCOUNTING PRONOUNCEMENTS

Going Concern

In April 2007, the CICA approved amendments to Handbook Section 1400, *General Standards of Financial Statement Presentation*. These amendments require management to assess an entity's ability to continue as a going concern.

When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The standard was adopted by the Company effective January 1, 2008.

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Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007
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3. ADOPTION OF NEW CANADIAN ACCOUNTING PRONOUNCEMENTS *(continued)*

Capital Disclosures

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1535, *Capital Disclosures*. The new standard requires a company to disclose information that enables users of its financial statements to evaluate its objectives, policies and procedures for managing capital including disclosures of any externally imposed capital requirements and the consequences for non-compliance.

The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, to support continued evaluation and maintenance at the Company's existing properties, and to acquire, explore, and develop other precious and base metal deposits.
- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk and loss of principal.
- To obtain the necessary financing to complete exploration and development of its properties, if and when it is required.

In the management of capital, the Company considers shareholders' equity, total debt and cash and cash equivalents. The Company is not exposed to externally imposed capital requirements (See Note 9).

Financial Instruments

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. The objective of these new standards is to provide more information for users of the Company's financial statements to understand the significance of financial instruments to the Company's financial position, performance, and cash flows. These new standards have superseded CICA Handbook Section 3861.

4. RELATED PARTY TRANSACTIONS

Consulting fees relating to legal, financial, investor relations and other corporate matters, and salaries paid to Directors, former Directors, and organizations having common Directors totalled \$2,274,112 for the year ended December 31, 2008 (2007 - \$1,139,400).

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

Other related party transactions are disclosed elsewhere in these financial statements.

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007
(Stated in US Dollars)

5. ACQUISITION OF H&J

The Company held 100% of shares of H&J Swanepoel Family Trusts Sprl (“H&J”) it acquired in a series of transactions between 2004 and 2007. The Company last transaction to increase its shareholding in H&J to 100% was a cash payment of \$1,250,000 in 2007. The acquisition of H&J was accounted for as an asset purchase at March 31, 2007 with the total cost of the acquisition being comprised of:

Cash	\$ 2,529,530
Less: Equity loss of H&J recognized previously	(448,262)
Total cost of the acquisition	<u>\$ 2,081,268</u>

The allocation of the purchase price to assets and liabilities is as follows:

Assets	
Cash	\$ 319,810
Other accounts receivable	98,083
Mineral Property	16,967,381
Liabilities	
Accounts payable and accrued liabilities	(881,524)
Future income tax component	(1,598,045)
Shareholder loan	(12,824,437)
Net assets acquired	<u>\$ 2,081,268</u>

The Shareholder loan comprised a loan to Swanmines from the Company to fund operating expenses and the feasibility study in respect of the Kalukundi project. The loan was without interest and fixed terms of repayment.

6. MINERAL PROPERTIES

For the year ended December 31, 2008	Kalukundi (Congo)	Mporokoso (Zambia)	Total
Balance beginning of year	\$ 28,749,463	\$ 150,544	\$ 28,900,007
Acquisition costs	10,944,909	-	10,944,909
Development expenditure	5,022,146	-	5,022,146
Asset retirement obligation	8,316	-	8,316
Exploration costs			
Consulting fees	-	103,002	103,002
Future income tax component	7,092,748	-	7,092,748
Total costs incurred during the year	<u>23,068,119</u>	<u>103,002</u>	<u>23,171,121</u>
Balance December 31, 2008	<u>\$ 51,817,582</u>	<u>\$ 253,546</u>	<u>\$ 52,071,128</u>

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007
(Stated in US Dollars)

6. MINERAL PROPERTIES (Continued)

For the year ended December 31, 2007	Kalukundi (Congo)	Mporokoso (Zambia)	Total
Balance beginning of year	\$ 4,672,223	\$ -	\$ 4,672,223
Development expenditure	5,671,728	-	5,671,728
Asset retirement obligation	202,560	-	202,560
Exploration costs			
Consulting fees	-	150,544	150,544
Stock based compensation (note 8)	963,949	-	963,949
Arising on acquisition of subsidiary (net of future income taxes)	15,369,336	-	15,369,336
Future income tax component	1,869,667	-	1,869,667
Total costs incurred during the period	24,077,240	150,544	24,227,784
Balance December 31, 2007	\$ 28,749,463	\$ 150,544	\$ 28,900,007

Kalukundi

The Kalukundi Project, consists of a number of copper and cobalt deposits located within the Kolwezi District of Katanga Province in the south-east of the DRC. The Company has completed a feasibility study and front end engineering design work for an open pit mine and processing facility to be constructed on site.

Acquisition costs of \$10,944,909 and associated future income taxes of \$7,296,606 have been recorded in Mineral Properties in respect of the settlement of the AKAM dispute further described in note 8 below.

Activity on the Kalukundi project was reduced to care and maintenance subsequent to the 2008 year end in light of the poor outlook for commodity prices caused by worsening global economic conditions.

Mporokoso

The Company acquired an interest in the Mporokoso gold project in Zambia as part of a basket of properties acquired along with the Kalukundi project. Geological work is currently underway to define past work and current geology in order to delineate a future possible exploration program for the property.

Royalties

The Company's mineral properties are subject to the following royalties:

In respect of the Kalukundi project, Swanmines is subject to a royalty of 2.5% of gross revenues, payable to Gecamines. A further Net Smelter Returns royalty of 2% is payable to the Government under the terms of the Mining Code of the DRC.

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007

(Stated in US Dollars)

6. MINERAL PROPERTIES *(Continued)*

In respect all of the properties acquired as part of the H&J transaction:

- A 0.5% Net Smelter Returns royalty is payable to Resource Marketing Services Ltd (RMS) which may be payable in shares of the Company.
- A 0.5% Net Smelter Returns royalty is payable to Rubicon, or a right of first refusal on any interests in the above properties, rights, assets, and opportunities which the Company wishes to sell.

7. ASSET RETIREMENT OBLIGATION

The Company is obliged under the mining code of the DRC and its environmental policies to rehabilitate the Kalukundi site once it ceases operations. As mining activities have not yet commenced, the rehabilitation activities would be focused on areas impacted by exploration activities. In view of the difficulty in assessing the end of mine life given the uncertainty regarding the potential start of mine development, the Company has used a current cost estimate as the basis for the asset retirement obligation provision of \$210,876 (2007- \$202,560).

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007
(Stated in US Dollars)

8. EQUITY

Common Shares

Authorised:

Unlimited common shares without par value

<u>Issued:</u>	<u>Number of Shares</u>	<u>Amount (USD)</u>
Balance, December 31, 2006	24,500,597	\$ 29,782,986
Shares issued under the plan of arrangement	410,465	-
Private placement	1,731,602	2,530,108
Private placement – directors, employees, and consultants	148,491	270,703
Stock options exercised	420,550	616,770
Transfer of contributed surplus on exercise of stock options	-	220,979
Share issuance costs	-	(28,624)
Balance, December 31, 2007	27,211,705	\$ 33,392,832
Shares issued under the plan of arrangement	3,467	-
Private placement	40,000,000	88,899,949
Shares issued in respect of Akam mineral property settlement	5,400,000	10,944,909
Share issuance costs	-	(195,433)
Balance, December 31, 2008	72,615,172	\$ 133,042,257

2008

On July 24, 2008, Africo completed a private placement of 40,000,000 units at a price of C\$2.50 (\$2.47) per unit with Camrose Resources Limited (“Camrose”) for gross proceeds of \$98,869,949. Each unit consists of one common share in the capital of Africo and one-half of a share purchase warrant. Each whole warrant entitles Camrose to acquire an additional common share in the capital of Africo at a price of C\$3.50 per share for an eighteen month period following closing. The fair value of the warrants was determined using the Black-Scholes pricing method to be \$9,970,000, based on an apportioned value of C\$0.50 (\$0.50) per share.

This placement has resulted in Camrose owning approximately 60% of the outstanding share capital of Africo. Camrose will have majority representation on the Board of Africo, and the right to participate in future financings to maintain its percentage equity ownership.

AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements – years ended December 31, 2008 and 2007 (*Stated in US Dollars*).

8. EQUITY (*continued*)

Concurrently with execution of the Subscription Agreement on April 17, 2008 Camrose loaned C\$2,000,000 to Africo. This loan carried interest at a rate equal to the London Interbank Offer Rate plus 2% per annum and the entire principal amount was set off against the aggregate subscription price payable to Africo on closing.

Camrose had previously acquired all of the outstanding shares of Akam Mining Sprl (“Akam”) an company involved in a dispute with Africo in respect of the ownership of Swanmines. Akam purportedly held, indirectly through Swanmines Sprl (“Swanmines”), the Kalukundi property. Camrose and Africo have entered into an agreement (the “Akam Agreement”) pursuant to which Africo’s subsidiary acquired 75% of the outstanding shares of Swanmines concurrent with completion of the private placement described above for a purchase price of C\$13,500,000, paid by issuing 5,400,000 common shares of Africo at a price per share of C\$2.50. Gecamines, a mining company owned by the Democratic Republic of the Congo, owns the remaining 25% of the outstanding shares of Swanmines. In terms of the Akam Agreement, Akam has released Africo from all claims it has against Africo, and Africo has released Akam from the legal proceedings it has brought against Akam. The consideration in respect of these shares has been valued at the price per share on the date of issue of the shares of C\$2.05 (\$2.03) per share, and the total consideration of \$10,944,900 has been allocated to mineral properties as acquisition costs.

In addition, Africo has agreed to acquire a 75% interest in the Mashitu property from an affiliate of Camrose, with the remaining 25% interest continuing to be held by Gecamines. The Mashitu property consists of an exploitation permit for copper, cobalt, gold and nickel in 41 blocks that are contiguous to the Kalukundi property. The purchase price is to be based on a valuation to be prepared by an independent expert agreed to by the parties and will be paid in common shares of Africo at a deemed price per share of C\$2.50.

Africo is not in a position to reliably estimate what the purchase price will be, and Africo is obligated to accept the independent expert’s determination of the purchase price. This acquisition is subject to satisfaction of conditions precedent, including certain assurances with respect to title.

Under the plan of arrangement completed during 2006, the Company has reserved shares for issuance to option and warrant holders of Rubicon Minerals Corp for no further consideration. At the year end, 228,965 shares remain to be issued under the plan.

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Notes to the Consolidated Financial Statements - years ended December 31, 2008 and 2007
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8. EQUITY (continued)

2007

On November 27, 2007 the Company completed a private placement of 1,731,602 units, which were issued at a price of C\$2.31 (\$2.31) per unit. Each unit comprised one common share and one warrant, each whole warrant entitling the holder to acquire an additional common share at a price of CDN \$2.89 per share on or before November 27, 2012. The fair value of the warrants was determined using the Black-Scholes pricing method to be \$1,483,983, based on an apportioned value of C\$0.86 (\$0.86) per warrant. The total value assigned to the shares amounted to \$2,530,018.

In addition, on December 21, 2007 the Company completed a private placement of 148,491 units to certain directors, employees and consultants, which were issued at a price of C\$2.31 (\$2.31) per unit. Each unit comprised one common share and one warrant, each whole warrant entitling the holder to acquire an additional common share at a price of CDN \$2.89 per share on or before December 21, 2009. The fair value of the warrants was determined to be the difference between the market price of shares on the date of subscription and the subscription amount per unit. The total value of the warrants of \$71,258, based on a value of C\$0.48 (\$0.48) per warrant, was transferred to the warrants account. The total value assigned to the shares amounted to \$270,703.

Contributed Surplus

	<u>Year ended December 31, 2008 (USD)</u>	<u>Year ended December 31, 2007 (USD)</u>
Outstanding at beginning of year	\$ 4,033,408	\$ 1,686,342
Options granted under stock based compensation plan at fair value	135,000	2,568,045
Options exercised at fair value at date of issue	-	(220,979)
Transfer in respect of expired warrants	1,163,265	-
Outstanding at end of year	<u>\$ 5,331,673</u>	<u>\$ 4,033,408</u>

Options outstanding

During 2008 the Company modified its incentive plan to make 10,000,000 common shares available for the Company to grant incentive stock options to certain directors, officers, employees and consultants of the Company.

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8. EQUITY (continued)

A summary of changes to incentive stock options issued are as follows:

Options	Number of shares	Weighted- average exercise price
Year ended December 31, 2007		
Granted	2,195,000	C\$ 2.31
Exercised	(420,550)	C\$ 1.72
Cancelled	(269,450)	C\$ 3.46
Outstanding and exercisable at end of year	3,975,000	C\$ 1.95
Year ended December 31, 2008		
Granted	400,000	C\$ 2.50
Outstanding and exercisable at end of year	4,375,000	C\$ 2.00

Incentive stock options outstanding and exercisable at December 31, 2008 were as follows:

Number outstanding	Weighted average remaining contractual life (years)	Exercise price
975,000	1.2	C\$ 0.75
100,000	1.9	C\$ 1.75
2,195,000	3.9	C\$ 2.31
1,105,000	3.1	C\$ 2.50
4,375,000	3.0	C\$ 2.00

During 2008, the Company granted 400,000 stock options, at an exercise price of CAD\$2.50 per share, to an officer. These options have a five year term. 25,000 options vested immediately and the remaining 375,000 options will vest on the first anniversary of the Camrose private placement. Stock based compensation expense of \$135,000 has been recorded in operations and credited to contributed surplus in respect of the vested options.

The stock based compensation expense for the year was estimated using the Black-Scholes option-pricing model. Assumptions used in the pricing model are as follows:

Dividend Yield	:	0%
Risk free interest rate:	:	2.93%
Expected volatility	:	90%
Expected life of option	:	3 years

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8. EQUITY, (continued)

For the year ended December 31, 2007, the assumptions used were as follows:

Dividend Yield	:	0%
Risk free interest rate:	:	3.75 – 3.85%
Expected volatility	:	75%
Expected life of option	:	4 years

Warrants

A summary of changes to warrants during 2008 are as follows:

	Number of warrants	Weighted- average exercise price	Amount (USD)
Year ended December 31, 2007			
Outstanding at beginning of year	2,688,980	CAD\$ 5.00	\$ 1,163,255
Issued:			
Private placement	1,731,602	CAD\$ 2.89	1,483,983
Private placement – directors, employees, and consultants	148,491	CAD\$ 2.89	71,258
Outstanding at end of year	4,569,073	CAD\$ 4.13	\$ 2,718,496
Year ended December 31, 2008			
Issued:			
Private placement	20,000,000	CAD\$ 3.50	9,970,000
Expired	(2,688,980)	CAD\$ 5.00	(1,163,265)
Outstanding at end of year	21,880,093	CAD\$ 3.45	\$ 11,525,231

The warrants issued to non-related parties were valued using the Black-Scholes option-pricing model.

Assumptions used in the pricing model are as follows:

	<u>2008</u>	<u>2007</u>
Dividend Yield	: 0%	0%
Average risk free interest rate	: 3.1%	3.8%
Expected volatility	: 90%	75%
Expected life of warrant	: 1.5 years	5 years

Outstanding warrants expire at various dates from January 2011 to November 27, 2012.

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9. CAPITAL DISCLOSURE

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of mineral property. The Board of Directors has not established quantitative capital structure criteria for management, but will review on a regular basis the capital structure of the Company to ensure its appropriateness to the stage of development of the business.

The property in which the Company currently has a 75% interest is in the development stage and the Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

In order to facilitate the management of capital and development of its mineral properties, the Company prepares annual expenditure budgets, which are updated as necessary and are reviewed and approved by the Company's Board of Directors. In addition, the Company may issue new equity, incur additional debt, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of certain assets. The Company's investment policy is to hold cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends. The Company expects to continue to raise funds, from time to time, to continue meeting its capital management objectives.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008 compared to the year ended December 31, 2007. The Company is not subject to externally imposed capital requirements.

10. FINANCIAL INSTRUMENTS

Fair Value

The Company has classified its cash and equivalents and short-term investments as available for sale. Amounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities. As of December 31, 2008, the Balance Sheet carrying amounts of these financial instruments closely approximate their fair value, and the Company held no derivative instruments.

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about the financial instruments. Fair values are determined directly by reference to published price quotations in an active market, when available, or by using a valuation technique that uses inputs observed from the markets.

Financial risk management

The Company's activities expose it to a variety of financial risks including credit risk, foreign exchange risk, interest rate risk and liquidity risk.

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10. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, and accounts receivable. Africo deposits its cash and cash equivalents, with high credit quality major Canadian financial institutions, as determined by ratings agencies, with original maturities of less than 90 days. Management believes the risk of loss to be remote.

Currency risk

The Company operates in the DRC and Canada and has a functional currency of US Dollars. It is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. Africo's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are held in several currencies (mainly Canadian dollars) and are therefore subject to fluctuation against the US dollar.

The Company had the following balances in Canadian Dollars as at December 31, 2008:

	Canadian Dollars
Cash and cash equivalents	\$ 64,283,918
Short term investments	30,124,042
Accounts receivable	110,224
Accounts payable and accrued liabilities	<u>(1,119,957)</u>
Net balance	\$ 93,398,227
Equivalent in US Dollars	\$76,679,944

Based on the balances as at December 31, 2009, a 1% increase (decrease) in the exchange rates on that date would have resulted in a decrease (increase) of approximately \$766,799 in the net comprehensive loss.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash and cash equivalents include deposits which are at variable interest rates. A plus or minus 1% change in change in rates would affect the net loss for the year by approximately \$414,189 (CAN\$441,500).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash and cash equivalent balances. The Company monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities.

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11. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	<u>Year ended December 31, 2008</u>	<u>Year ended December 31, 2007</u>
Statutory rate	31%	34.12%
Income tax recovery computed at statutory rate	\$ (1,856,606)	\$ (2,010,322)
Non-deductible expenses for tax purposes	1,527,699	(732,501)
Foreign income subject to different tax rates	19,674	72,611
Other	(9,065)	459,918
Change in valuation allowance	318,298	2,210,294
Income tax expense	<u>\$ -</u>	<u>\$ -</u>

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of the future income tax assets and liabilities are as follows:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Future income tax assets		
Tax losses	\$ 1,509,875	\$ 1,691,224
Other temporary differences	2,563,595	1,764,811
Less valuation allowance	<u>(4,073,470)</u>	<u>(3,456,035)</u>
Net future income tax assets	-	-
Future income tax liabilities		
Mineral properties	<u>(10,949,034)</u>	<u>(3,856,292)</u>
Net future income tax liabilities	<u>\$(10,949,034)</u>	<u>\$(3,856,292)</u>

At December 31, 2008, the Company had non-capital losses of approximately \$5,032,914 (2007 - \$6,252,373) available to reduce future taxable income. Of this amount, \$4,938,803 (2007 - \$6,206,733) will expire in periods ranging from seven to twenty years. In addition the Company has approximately \$29,212,096 of resource and other tax pools available to offset future income.

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12. SUBSEQUENT EVENT

Subsequent to the year-end, on January 13, 2009, a subsidiary of the Company concluded an agreement with La Générale des Carrières et des Mines ("Gécamines") and the Government of the Democratic Republic of Congo on the amended terms governing the Kalukundi property.

Pursuant to the amendment agreement, Africo is required to pay Gécamines US\$1.6 million per year for a four year period as an entry premium. An additional payment will be required on the basis of U\$35 per ton Copper on reserves exceeding 180,000 tons when these reserves are booked.