



**Management's Discussion & Analysis  
for the quarter ended**

**June 30, 2011**

**Dated: August 10, 2011**

# **AFRICO RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**

*Set out below is a review of the activities, results of operations and financial condition of Africo Resources Ltd. and its subsidiaries (referred to herein together as the "Company" or "Africo") for the quarter ended June 30, 2011. The following information should be read in conjunction with the unaudited condensed consolidated interim financial statements of Africo and the notes thereto for the six months ended June 30, 2011, the three months ended March 31, 2011 and with the audited consolidated financial statements of Africo and the notes thereto for the year ended December 31, 2010. This MD&A for the six months ended June 30, 2011 reflects our adoption of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A is prepared as of August 10, 2011. All dollar amounts, unless otherwise indicated, are in US Dollars.*

*The Company is a reporting issuer in the Provinces of British Columbia, Alberta, and Ontario in Canada and is listed on the TSX in Canada under the symbol ARL.*

*Additional information related to the Company, including the Company's most recent annual information form is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **OVERVIEW**

Africo is a mineral resource company engaged in the exploration and development of precious metal and base metal mineral properties. Currently the Company has its principal mineral property, the Kalukundi Property, which is a copper and cobalt property, located in the Democratic Republic of the Congo ("DRC") near Kolwezi.

### **DEVELOPMENTS DURING THE QUARTER ENDED JUNE 30, 2011**

On January 24, 2011, the Company paid \$1,600,000 to La Générale des Carrières et des Mines ("GCM") pursuant to its agreement with GCM dated January 13, 2009. This payment is the third of four equal annual installments totaling \$6,400,000 for the Kalukundi Property, which is considered an entry payment.

### **DEVELOPMENTS DURING THE YEAR ENDED DECEMBER 31, 2010**

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### **DEVELOPMENTS IN PRIOR YEARS**

#### **Private Placement and resolution of Kalukundi ownership dispute**

On July 24, 2008, Africo completed a CDN \$100 million private placement with Camrose Resources Limited ("Camrose"). Concurrently with the Camrose private placement, the Company entered into an agreement with Camrose pursuant to which Africo's wholly-owned subsidiary re-established ownership of 75% of the outstanding shares of Swanmines S.p.r.l. ("Swanmines"), the holder of the exploitation permit to the Kalukundi Property. This finally brought to an end the ownership dispute which had caused significant disruption to Africo's operational plans in the DRC.

## Termination of Transfer Agreement with La Congolaise de Mines et de Development (Comide S.p.r.l.) (“Comide”)

Concurrent with the July 24, 2008 private placement with Camrose, Africo entered into a Transfer Agreement with Comide, a joint venture company owned 75% by an affiliate of Camrose and 25% by Gécamines. The Transfer Agreement provided that Comide would transfer to Swanmines Exploitation Permit No. PE2607, which consists of approximately 34.81 km<sup>2</sup> located in the Province of Katanga, DRC, and is for copper, cobalt, gold and nickel extraction. The purchase price to be paid by Africo was to be based on a valuation and be satisfied by the issuance of common shares in the capital of Africo at a deemed price of CDN \$2.50 per share. The transfer was subject to a number of conditions precedent being satisfied, including the consent of Gécamines, which was not obtained. As a result of the economic conditions in 2009, the uncertain value of the Exploitation Permit, the corresponding uncertainty as to the number of shares to be issued, and the fact that the consent of Gécamines was not obtained, on May 15, 2009, Africo, Comide and Camrose agreed to terminate the Transfer Agreement subject to the approval of the disinterested shareholders of Africo. This approval was obtained at Africo’s annual and special meeting held June 18, 2009.

### Mining Review

Under the terms of the mining review in the DRC, an agreement was concluded on January 13, 2009 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. Under the amendment agreement Africo is required to pay Gécamines USD \$1.6 million per year for a four year period as an entry fee, and an additional payment will be required on the basis of USD \$35 per ton of copper on reserves exceeding 180,000 tons. The first USD \$1.6 million payment was made in January 2009, the second USD \$1.6 million payment was paid in January 2010 and the third USD \$1.6 million payment was made in January 2011.

### Mineral Property – The Kalukundi Property

A technical report on the Kalukundi Property dated June 2006, and subsequently revised July 2008 (the “Kalukundi Report” or the “Technical Report”) written by John Hearne, B.Eng., MBA, MA Aus IMM, and Dr. Julian Verbeek, BSc. (Honours), PhD (Geol.), MA Aus IMM, both principal consultants with RSG Global Pty. Ltd., National Instrument 43-101 compliant, has been electronically filed with regulators and is available for public review at [www.sedar.com](http://www.sedar.com). An extract from the Technical Report is also contained in Africo’s Annual Information Form dated March 30, 2011, which is also available on the SEDAR website.

As a result of the 2008-2009 global economic conditions, Africo significantly scaled back activities on the Kalukundi Property until such time as global economic conditions improve. In this regard, the Company eliminated its expatriate development team in order to reduce costs on the Property.

Exploration activities and drilling activity focused on the search for mineralization within new fragments in 2008 and 2009. The core drilling programme, amounting to 3971m, was in three fragments:

Kesho	18 holes	2282m
SE Anticline	6 holes	674m
Principal	6 holes	1015m
<b>Totals</b>	<b>30 holes</b>	<b>3971m</b>

This was accompanied by 1139m of RC drilling from 13 boreholes at selected localities on the Kii, Kalukundi, SE Anticline and Principal Fragments to identify the hydrogeological characteristics of the RAT Lilas formation.

Evaluation of the core including sampling, SG measurements, etc was followed by monitoring and evaluation of the assay data to comply with QA/QC requirements. All borehole collar positions were accurately surveyed for inclusion in the detailed geological models. Accordingly, on August 4, 2009, Africo reported initial results from the drilling programme on the Principal and SE Anticline Fragments. The August 4, 2009 announcement has been electronically filed with regulators and is available for review at [www.sedar.com](http://www.sedar.com).

Results from the drilling returned some of the best values encountered on the Property to date and confirm that the central part of the Principal Fragment is highly anomalous in cobalt as well as hosting excellent copper grades. The best intersection from BH K107 grades at 7.75% copper and 2.68% cobalt over a drilled width of 32.88m (true width 30.00m). This intersection runs from 157.0m to 189.88m and has established that oxide mineralization on this fragment can be confirmed to a vertical depth of 140m.

Assay results from the drilling on the SE Anticline Fragment have been received and are very encouraging, particularly in respect of cobalt values, with the best intersection grading at 1.47% cobalt over a drilled width of 28.86m (true width 25.0m).

The core drilling on the Kesho fragment followed a programme of RC drilling undertaken in 2007 which also confirmed the presence of continuous mineralization. The results of the core drilling were very positive with each borehole intersection locating both copper and cobalt mineralization. The better intersections encountered are summarized as follows:

<b>BH No.</b>	<b>From</b>	<b>To</b>	<b>Drilled Width</b>	<b>Cu</b>	<b>Co</b>
KES 1	8.00m	44.00m	36.00M	3.08%	0.54%
KES 3B	18.50m	56.00m	37.50m	2.87%	0.54%
KES 5	3.35m	45.50m	39.15m	1.65%	0.71%
KES 15	53.00m	87.50m	34.50m	1.35%	0.89%

The SE Anticline Fragment is located to the south of the Kesho fragment. Pitting and trenching exploration plus assay data from a percussion borehole in 2008 established the presence of high grade cobalt mineralization on this fragment. A limited amount of drilling at 200m centers in 2009 was designed to determine the prospectivity of this fragment and the potential continuity of the mineralization. The drilling was successful in locating mineralization, which is copper-rich in the north and cobalt-rich in the south. One RC hole drilled in the north intersected significant copper mineralization in the hanging wall SDS unit.

As the Kalukundi Report focused on the Principal, Anticline, Kalukundi and Kii Fragments, the Company is evaluating the prospects of an assessment on the Kesho Fragment, which is a completely new geological model, and an update of the existing data on the Principal Fragment. In this regard it has been recommended by Coffey Mining (SA) Pty. Ltd. that:

- Additional drilling is needed at the Kesho Fragment to reduce the borehole spacing to 50m x 50m and replace all RC with core.

- Additional drilling is still needed at the Principal Fragment to fill in gaps in the drilling and to evaluate the mineralization in the southern portion of the Fragment.
- Hanging wall mineralization be evaluated and included in the mineral resource models.

During 2010, Africo assessed and evaluated the recommendations in the Kalukundi Report with respect to the Kalukundi Property. During the year ended December 31, 2010 the Company incurred continued exploration expenses of \$1,578,092 on its Kalukundi property.

On June 13, 2011, the Company announced that it had retained MDM Engineering to review and update its planned increased throughput design update and cost revalidation of the Feasibility Study for the Company's Kalukundi project. In May 2006, MDM completed the initial Feasibility Study, based on a throughput of 800,000 tonne per annum plant. Africo has now requested that MDM complete a review and cost update for the Feasibility Study and the Front End Engineering Design (FEED) that was previously completed. The review will be based on the throughput of 1.25 million tonnes per annum that was evaluated during the FEED.

On June 23, 2011, the Company announced that it had commenced drilling at its Kalukundi property. The initial programme of borehole drilling will focus on the Principal and Anticline Fragments of the property where the highest grades of copper and cobalt were encountered during the Company's last exploration activities conducted in 2008 and 2009. An initial programme of 4,000 metres of drilling is planned as infill drilling to confirm continuity and grade of the currently defined geology and mineralization and to search for extensions of the known mineralization. In addition, a programme of shallow drill holes is planned for the Kii and Kalukundi Fragments as soon as a smaller portable drilling rig can be secured. This drilling will be focused on defining the grade of the near surface mineralization on these two fragments with a view to commissioning a preliminary mining plan on the northeast extensions of each of these two fragments.

Additional drilling will likely continue in 2012 and the Company will update the Technical Report to include any additional drilling results, as well as assess the development of the Kalukundi property.

## **QUALIFIED PERSON**

The technical information within this MD&A was prepared under the supervision of Michael J. Evans, Africo's Consulting Geologist, who is a Qualified Person under National Instrument 43-101 (NI 43-101) *Standards of Disclosures for Mineral Properties*.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The three months ended March 31, 2011 was the Company's first reporting period under IFRS.

The condensed consolidated interim financial statements were prepared using accounting policies it expects to adopt for its December 31, 2011 annual financial statements. Because the annual financial statements will be prepared using accounting standards in effect at December 31, 2011 differences may arise at that date because new standards may be issued subsequent to these interim financial statements which could be effective December 31, 2011. Any change in accounting standards may result in material changes to the company's reported financial position, results of operations and cash flow.

The Company's IFRS conversion process identified four phases: scoping and planning, detailed assessment, implementation and post-implementation. The Company has now completed its IFRS conversion project through implementation. Post-implementation will continue in future periods.

The following outlines the Company's transition project, IFRS transitional impacts and the on-going impact of IFRS on its financial results.

The notes to the unaudited condensed consolidated interim financial statements for the quarter ended June 30, 2011 provides more detail on the Company's key pre-2011 Canadian GAAP to IFRS differences, its accounting policy decisions under IFRS 1, First-Time Adoption of IFRS, optional exemptions for significant or potentially significant areas that have had an impact on its financial statements on transition to IFRS or may have an impact in future periods.

#### Transitional Financial Impact

As a result of the policy choices the Company has selected and the changes it was required to make under IFRS, the Company has recorded a reduction in its equity of \$993,281 and an increase in current liabilities of \$993,281 as at January 1, 2010. The table below outlines adjustments to its equity and current liabilities upon adoption of IFRS on January 1, 2010, and at June 30, 2010 and December 31, 2010 for comparative purposes.

	As at January 1, 2010	As at June 30, 2010	As at December 31, 2010
<b>Current Liabilities under Canadian GAAP</b>	<b>\$ 282,171</b>	<b>\$ 76,234</b>	<b>\$ 253,960</b>
Derivative financial liability	993,281	842,072	599,751
<b>Current Liabilities under IFRS</b>	<b>\$ 1,275,452</b>	<b>\$ 918,306</b>	<b>\$ 853,711</b>
<b>Equity under Canadian GAAP</b>	<b>\$ 94,822,281</b>	<b>\$ 93,016,126</b>	<b>\$ 96,178,467</b>
Contributed surplus	(8,864,106)	(18,747,821)	(18,977,584)
Share-based payments reserve	8,864,106	8,777,821	9,007,584
Share purchase warrants	(11,453,983)	(1,483,983)	(1,483,983)
Accumulated other comprehensive income	3,974,637	4,809,511	(458,092)
Deficit	6,486,065	5,802,400	11,312,324
<b>Equity under IFRS</b>	<b>\$ 93,829,000</b>	<b>\$ 92,174,054</b>	<b>\$ 95,578,716</b>

A reconciliation of the Company's net earnings (loss) and comprehensive income (loss) under Canadian GAAP and IFRS for the six months ended June 30, 2010 and the year ended December 31, 2010 are provided below.

#### Net Earnings (Loss) and Comprehensive Income (Loss) Impact

As a result of the policy choices the Company has selected and the changes it was required to make under IFRS, the Company has also recorded a decrease in its net earnings of \$4,647,183 for the six months ended June 30, 2010 and an increase of \$4,826,259 for the year ended December 31, 2010.

The following is a summary of the adjustments to net earnings (loss) and comprehensive income (loss) for the six months ended June 30, 2010 and the year ended December 31, 2010 under IFRS, all of which are outlined in the notes to the unaudited condensed consolidated interim financial statements for the quarters ended June 30, 2011 and the quarter ended March 31, 2011.

	As at June 30, 2010	As at December 31, 2010
<b>Net earnings (loss) under Canadian GAAP</b>	<b>\$ 707,573</b>	<b>\$ (3,538,888)</b>
Gain on derivative financial liability	138,065	393,530
Foreign exchange gain (loss)	(4,785,248)	4,432,729
<b>Net earnings (loss) under IFRS</b>	<b>\$ (3,939,610)</b>	<b>\$ 1,287,371</b>

	As at June 30, 2010	As at December 31, 2010
<b>Comprehensive income (loss) under Canadian GAAP</b>	<b>\$ (4,077,675)</b>	<b>\$ 893,841</b>
Gain on derivative financial liability	138,065	393,530
<b>Comprehensive income (loss) under IFRS</b>	<b>\$ (3,939,610)</b>	<b>\$ 1,287,371</b>

### Cash Flow Impact

There was no significant impact to the Company's cash flows as a result of its transition from Canadian GAAP to IFRS.

### Financial Statement Presentation Changes

The transition to IFRS has resulted in some financial statement presentation changes in the Company's consolidated financial statements. The following is a summary of the significant changes to the Company's consolidated statement of financial position and to its consolidated statement of earnings (loss) and comprehensive income (loss):

#### Statement of Financial Position

- The Company now recognizes a derivative financial liability as a result of all of its issued and outstanding common share purchase warrants having exercise prices denominated in Canadian dollars, while the Company's functional currency is the US dollar. Accordingly, the fair value of the Company's common share purchase warrants is no longer presented in equity.
- As a result of the Company re-designating certain financial instruments, the Company no longer recognizes any unrealized foreign exchange gains or losses on its financial instruments in accumulated other comprehensive income.

#### Statement of Earnings (Loss) and Comprehensive Income (Loss)

- Finance Costs – Under IFRS, finance costs include any interest and other income, foreign exchange gains or losses and gains or losses on derivative financial liabilities.
- The Company now recognizes gains or losses on derivative financial liabilities as a result of all of its issued and outstanding common share purchase warrants having exercise prices denominated in Canadian dollars, while the Company's functional currency is the US dollar. The fair value of the Company's issued and outstanding common share purchase warrants is re-valued every reporting period thus resulting in a potential gain or loss on the derivative liability.

- As a result of the Company re-designating certain financial instruments, the Company now recognizes any unrealized foreign exchange gains or losses on its financial instruments in its statement of earnings (loss).

With respect to the significant changes in the Statement of Earnings (Loss) and Comprehensive Income (Loss), the latter two points above have resulted in the Company reporting net earnings rather than a net loss for the six months ended June 30, 2011.

### Control Activities

For all changes to policies and procedures that have been identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and any changes have been implemented. In addition, controls over the IFRS changeover process have been implemented, as necessary. The Company has identified and implemented the required accounting process changes that resulted from the application of IFRS accounting policies and these changes were not significant. The Company has completed the design, implementation and documentation of internal controls over the accounting process changes resulting from the application of IFRS accounting policies and applied its existing control framework to the IFRS changeover process. All accounting policy changes and transitional financial position impacts were subject to review by senior management and the Audit Committee of the Board of Directors.

### Business Activities and Key Performance Measures

The Company has assessed the impact of the IFRS transition project on its key ratios. The transition did not significantly impact its key ratios.

### Information Technology and Systems

The IFRS transition project did not have a significant impact on its information systems for the convergence periods. The Company also does not expect significant changes in the post-convergence periods.

### Post-Implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. The Company has noted that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, the Company expects that there may be additional new or revised IFRSs or IFRICs in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. The Company has also noted that the IASB is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration and evaluation costs and disclosures. The Company has processes in place to ensure that the potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC Interpretations will be evaluated as they are drafted and published.

## **SIGNIFICANT ACCOUNTING POLICIES**

As a result of the Company's transition from Canadian GAAP to IFRS, the accounting policies set out below are expected to be adopted for the year-ending December 31, 2011 and have been applied consistently in preparing the opening IFRS consolidated statement of financial position at January 1, 2010 and to all periods presented in the Company's condensed consolidated interim financial statements.

**(a) Basis of Consolidation**

The financial statements of the Company consolidate the accounts of Africo and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses are eliminated on consolidation.

Subsidiaries are those entities which Africo controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Africo controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Africo and are de-consolidated from the date that control ceases.

**(b) Use of Judgments and Estimates**

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of estimates and assumptions relate to the review of carrying values and determination of impairment charges of non-current assets; valuation of share-based payments; recoverability of deferred income tax assets; provision for closure and reclamation; and determination of carrying values of derivative financial liabilities among others. Actual results could differ from those estimates.

**(c) Foreign Currency Translation**

The functional and reporting currency of the Company and its subsidiaries is the United States dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the transaction date. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency translation differences are recognized in profit or loss.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

**(e) Short-term Investments**

The Company classifies all its investments with maturities greater than three months to one year as short-term investments.

**(f) Mineral Interests**

Exploration and evaluation expenses are charged to earnings as they are incurred until the mineral property reaches the development stage. Significant costs related to property acquisitions are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs

subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be amortized against production following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge titles to all of its properties are in good standing.

**(g) Provision for Closure and Reclamation**

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate and the liability is recognized at the time environmental disturbance occurs. The resulting costs are capitalized to the corresponding asset. The provision for closure and reclamation liabilities is estimated using expected cash flows and discounted at a risk free rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation costs. Changes in closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost. Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of the mine.

**(h) Impairment of Non-Current Assets**

Non-current assets are evaluated at least annually by management for indicators that the carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in income to the extent that the carrying amount exceeds the recoverable amount. In calculating the recoverable amount the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

**(i) Income Taxes**

The Company uses the balance sheet method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their

respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(j) Share-based Payments**

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve amount is transferred to share capital. When stock options are forfeited prior to becoming fully vested, any expense previously recorded is reversed through income.

**(k) Share Capital**

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the agreement to issue shares was concluded.

**(l) Earnings per Share**

Basic earnings per share is calculated by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

**(m) Financial Instruments**

**(i) Financial Assets**

The Company classifies its financial assets in the following categories: fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

***Financial Assets at Fair Value Through Profit or Loss***

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through income. Short-term investments are included in this category of financial assets.

### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

#### (ii) Financial Liabilities

The Company classifies its financial liabilities in the following categories: borrowings and other financial liabilities and derivative financial liabilities.

### Borrowings and Other Financial Liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transactions costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of earnings over the period to maturity using the effective interest method. Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include trade accounts payable and accrued liabilities.

### Derivative Financial Liabilities

Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss. Derivative financial liabilities include warrants issued by the Company denominated in a currency other than the Company's functional currency.

## **NEW IFRS PRONOUNCEMENTS**

### Financial Instruments

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9, Financial Instruments, which addresses the classification and measurement of financial assets as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. Requirements for financial liabilities were added in October 2010. IFRS 9 must be applied starting January 1, 2013, with early adoption permitted. The Company has not early adopted IFRS 9 and is currently evaluating the expected impact on its consolidated financial statements.

### Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements and IFRS 12, Disclosure of Interests in Other Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's consolidated financial statements. IFRS 10 sets out three elements of control: a) power over the investee; b) exposure, or rights, to variable returns from involvement with the investee; and c) the ability to use power over the investee to affect the amount of the investors return. IFRS 10 sets out the requirements on how to apply the control

principle. IFRS 12 outlines disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. IFRS 10 and IFRS 12 supersede IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities.

IFRS 10 and IFRS 12 are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if adopted along with IFRS 11, IFRS 12, IAS 27 (revised) and IAS 28 (revised). The Company is currently assessing the impact of these standards on its consolidated financial statements.

#### Fair Value Measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement so assumptions that market participants would use should be applied in measuring fair value.

IFRS 13 is effective for annual periods on or after January 1, 2013, with earlier application permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied and the disclosure requirements do not need to be applied in comparative periods before initial application. The Company is currently assessing the impact of this standard on its consolidated financial statements.

## **RESULTS OF OPERATIONS**

Although development is being considered on its Kalukundi Property, Africo is in the exploration phase and none of the Company's properties are currently in production. Exploration and evaluation expenses are expensed when incurred except for significant acquisition costs with respect to a given property. Administrative expenses relating to the operation of the Company's business are also expensed. Consequently, the Company's net income is not a meaningful indicator of its performance or potential.

The key performance driver for the Company is the acquisition and development of prospective mineral properties. By acquiring and exploring properties of superior technical merit, the Company increases its chances of finding and developing an economic deposit.

Additional financing may be required for new exploration, production decisions on its principal mineral property and other business initiatives. Due to the inherent nature of the mineral exploration industry, the Company will have a continuous need to secure additional funds through the issuance of equity or debt in order to support its corporate and exploration and development activities, as well as its share of obligations relating to mineral properties.

The Company adopted IFRS effective January 1, 2011. The financial information in this MD&A has been prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Further information of the adoption of IFRS is described in the notes to the unaudited condensed consolidated interim financial statements.

#### For the six months ended June 30, 2011 compared to the six months ended June 30, 2010

Net earnings and comprehensive income for the six months ended June 30, 2011 was \$326,471 or \$0.00 per share compared to a net loss and comprehensive loss of \$1,887,528 or \$(0.03) per share for the six months ended June 30, 2010.

Net earnings and comprehensive income during the six months ended June 30, 2011 is inclusive of interest and other income of \$1,228,531 (2010 - \$349,400), a gain on derivative financial liability of \$510,943 (2010 - \$151,209) and a foreign exchange gain of \$663,745 (2010 – loss of \$961,162). Individual items before finance costs contributing to net earnings and comprehensive income for the six months ended June 30, 2011 compared to the net loss and comprehensive loss for the six months ended June 30, 2010 are as follows:

- Exploration and evaluation expenses amounted to \$914,380 (2010 - \$524,287). The increase in exploration and evaluation expenses during the period is due to the commencement of the \$7 million budgeted exploration and drilling program on the Company's Kalukundi property.
- General and administrative costs amounted to \$514,090 (2010 - \$709,897). The decrease in general and administrative costs was a result of the Company scaling back on its corporate head office expenditures during the period.
- Professional fees amounted to \$88,909 (2010 – \$54,151). Professional fees increased during the six months ended June 30, 2011 in comparison to the prior period due to the Company engaging its auditors to perform a review of its 2011 first quarter financial statements and also due to the accrual of approximately half of the Company's 2011 year-end audit fee.
- Share-based payments expense amounted to \$469,949 (2010 - \$85,702) being the fair value attributed to options that were granted and vested during the period. The increase in share-based payments expense during the current period in comparison to the prior period is due to the fair value assigned to the Company's most recent grant of 1,010,000 incentive stock options in which 20% vested on the date of grant and 20% shall vest every six months thereafter. The fair value assigned to those options which vested during the period was recorded in the statement of earnings (loss) and comprehensive income (loss) for the six months ended June 30, 2011.
- Stock exchange, filing and transfer agent fees amounted to \$28,871 (2010 - \$23,962). The increase in stock exchange, filing and transfer agent fees was insignificant.
- Travel costs amounted to \$60,549 (2010 - \$28,976). The increase in travel costs was due to key management travelling for investment meetings, mining conferences and for its Annual General Meeting ("AGM").

For the three months ended June 30, 2011 compared to the three months ended June 30, 2010

Net loss and comprehensive loss for the three months ended June 30, 2011 was \$544,763 or \$(0.01) per share compared to a net loss and comprehensive loss of \$3,939,610 or \$(0.06) per share for the three months ended June 30, 2010.

Net loss and comprehensive loss during the three months ended June 30, 2011 is inclusive of interest and other income of \$533,901 (2010 - \$233,469), a gain on derivative financial liability of \$331,046 (2010 - \$138,065) and a foreign exchange loss of \$41,108 (2010 – loss of \$3,708,471). Individual items before finance costs contributing to the net loss and comprehensive loss for the three months ended June 30, 2011 compared to the net loss and comprehensive loss for the three months ended June 30, 2010 are as follows:

- Exploration and evaluation expenses amounted to \$543,326 (2010 - \$214,525). The increase in exploration and evaluation expenses during the period is due to the commencement of the \$7 million budgeted exploration and drilling program on the Company's Kalukundi property.

- General and administrative costs amounted to \$302,002 (2010 - \$335,151). The decrease in general and administrative costs was a result of the Company scaling back on its corporate head office expenditures during the period.
- Professional fees amounted to \$14,311 (2010 – \$35,433). Professional fees decreased slightly during the three months ended June 30, 2011 in comparison to the prior period due to the reversal of the Company’s 2010 year-end audit fee.
- Share-based payments expense amounted to \$469,949 (2010 - \$Nil) being the fair value attributed to options that were granted and vested during the period. The increase in share-based payments expense during the current period in comparison to the prior period is due to the fair value assigned to the Company’s most recent grant of 1,010,000 incentive stock options in which 20% vested on the date of grant and 20% shall vest every six months thereafter. The fair value assigned to those options which vested during the period was recorded in the statement of earnings (loss) and comprehensive income (loss) for the three months ended June 30, 2011. There were no stock options granted or vested in the second quarter of 2010.
- Stock exchange, filing and transfer agent fees amounted to \$4,686 (2010 - \$4,187). The increase in stock exchange, filing and transfer agent fees was insignificant.
- Travel costs amounted to \$34,328 (2010 - \$13,377). The increase in travel costs was due to key management travelling for investment meetings, mining conferences and for its Annual General Meeting (“AGM”).

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes selected financial data reported by the Company for the quarter ended June 30, 2011 and the previous seven quarters in U.S. dollars. Fiscal quarters prior to the quarter ended March 31, 2010 are presented in accordance with Canadian GAAP and were not required to be restated to IFRS. Fiscal quarters prior to the quarter ended December 31, 2009 have all been restated to conform to the change in accounting policy which took place during the 2009 fiscal year (*Please refer to the MD&A for the year ended December 31, 2009*):

	IFRS					Canadian GAAP		
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	(Restated) September 30, 2009
Net earnings (loss)	\$(544,763)	\$871,234	\$382,349	\$2,792,550	\$(3,939,610)	\$2,052,082	\$(2,291,141)	\$(434,203)
Earnings (loss) per share:								
Basic	\$(0.01)	\$0.01	\$0.01	\$0.04	\$(0.06)	\$0.03	\$(0.03)	\$(0.01)
Diluted	\$(0.01)	\$0.01	\$0.01	\$0.04	\$(0.06)	\$0.03	\$(0.03)	\$(0.01)

- Basic and diluted loss per share is the same, as the effect of potential shares issuances under stock option or warrant agreements would be anti-dilutive.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2011 the Company had approximately \$71 million in cash and cash equivalents and \$7.8 million in short-term investments. The Company does not have any cash flow from operations as it is an exploration stage company. Therefore, financings, as well as interest earned on current cash and investment balances, have been the sole source of funds since its inception.

Short-term investments are invested in highly liquid, low risk, interest bearing instruments which mature in 11 months. The surplus funds are invested only with Canadian Chartered banks.

At June 30, 2011 the Company had working capital of \$78,585,434. In the opinion of management this working capital is sufficient to support the Company's normal operating requirements on an ongoing basis for the following year and beyond.

Given volatility in equity markets, global uncertainty in economic conditions, cost pressures and results of exploration activities, management constantly reviews expenditures and exploration programs and equity markets such that the Company has sufficient liquidity to support its growth strategy.

During the six months ended June 30, 2011 the Company's main cash outflows were for operations, which include the Company's exploration and evaluation activities of \$914,380 and general and administrative costs of \$514,090 and for the USD \$1.6 million entry payment which was made to Gécamines for the Company's Kalukundi property.

## **LIQUIDITY AND CAPITAL RESOURCES OUTLOOK**

The Company's cash position is highly dependent on the ability to raise cash through financings and the expenditures incurred on exploration programs. Capital expenditures are not expected to have any material impact on liquidity at the present time. Management believes that in order to finance the development of the Kalukundi Property, the Company will be required to raise additional capital by way of debt and/or equity.

This outlook is based on the Company's current financial position and is subject to change if opportunities become available based on current exploration program results and/or external opportunities.

## **STRATEGY AND RISK MANAGEMENT**

The Company has taken steps to reduce the level of its operating costs with a view to ensuring that it is able to withstand any delay in bringing the Kalukundi property into production as a result of the current economic conditions.

The feasibility study for the Kalukundi Property which was completed in June 2006 estimated capital costs totaling \$166.6 million. Taking into account the lead time to build the mine and potential working capital requirements at the start of production and based on estimates contained in the feasibility study, the Company will need to raise approximately \$200 million or more for capital costs, working capital, and additional mining and exploration activities to enable the Company to meet its development plans. In 2008, the Company raised CDN \$100 million of equity funding, and the Company will need to secure a debt component or additional equity financing in order to proceed with the project.

As a result of the 2008 and 2009 economic conditions, Africo significantly scaled back activities on its Kalukundi Property until such time as global economic conditions improve.

During 2010, Africo assessed and evaluated the recommendations in the Kalukundi Report with respect to the Kalukundi property.

On June 13, 2011, the Company announced that it had retained MDM Engineering to review and update its planned increased throughput design update and cost revalidation of the Feasibility Study for the Company's Kalukundi project. In May 2006, MDM completed the initial Feasibility Study, based on a throughput of 800,000 tonne per annum plant. Africo has now requested that MDM complete a review and cost update for the Feasibility Study and the Front End Engineering Design (FEED) that was previously completed. The review will be based on the throughput of 1.25 million tonnes per annum that was evaluated during the FEED.

On June 23, 2011, the Company announced that it had commenced drilling at its Kalukundi property. The initial programme of borehole drilling will focus on the Principal and Anticline Fragments of the property where the highest grades of copper and cobalt were encountered during the Company's last exploration activities conducted in 2008 and 2009. An initial programme of 4,000 metres of drilling is planned as infill drilling to confirm continuity and grade of the currently defined geology and mineralization and to search for extensions of the known mineralization. In addition, a programme of shallow drill holes is planned for the Kii and Kalukundi Fragments as soon as a smaller portable drilling rig can be secured. This drilling will be focused on defining the grade of the near surface mineralization on these two fragments with a view to commissioning a preliminary mining plan on the northeast extensions of each of these two fragments.

Additional drilling will likely continue in 2012 and the Company will update the Technical Report to include any additional drilling results, as well as assess the development of the Kalukundi property.

The Company is also considering an acquisition strategy provided that the acquired assets are deemed to be a long term strategic fit.

## **EXPLORATION AND EARLY DEVELOPMENT STAGE COMPANY**

The Company is engaged in the business of acquiring, exploring and developing mineral properties with the expectation of locating economic deposits of minerals. There is no assurance that the Company's exploration or development programs will result in economic deposits being commercially mined. As a consequence, the risks and uncertainties and forward looking information is subject to known and unknown risks and uncertainties which are as follows, but not limited thereto:

- exploration and development of mining properties is highly speculative in nature and involves a high degree of risk;
- there are many competitors in the business, some of which have greater financial, technical and other resources;
- mining involves many hazards and risks in the field such as unexpected rock formations, seismic activity, cave-ins, adverse weather conditions, unstable political conditions, and many other conditions;
- timing delays in exploration and development and delays in funding may result in delays and postponement of projects. In addition, delays in development may result in the Company losing title to its Kalukundi property if it is not able to comply with the time requirement in its joint venture agreement with the mining authorities in the DRC and with the state mining Company in the DRC, in particular, which owns 25% of Swanmines S.p.r.l. Africo has a 75% equity interest in Swanmines S.p.r.l. which owns the Kalukundi property;

- there is no assurance that the Company will be able to obtain all necessary permits and approvals to conduct its affairs and there is no assurance that future tax, environmental or other legislation will not cause additional expenses, delays or postponements;
- there is no assurance that the Company will be able to obtain the requisite financing to bring the Kalukundi Property into production;
- the operations are subject to environmental regulation, a breach of which may result in imposition of enforcement actions, environmental hazards may exist on current properties which are presently unknown to the Company, and regulations and laws change over time;
- world prices for metals can be unstable and unpredictable and may materially affect the Company's operations as well as economic conditions which may change the demand for minerals;
- the securities markets worldwide have experienced high price and volume volatility;
- the Company is dependent upon the services of certain key individuals whose loss could significantly affect operations;
- officers and directors of the Company may have potential conflicts of interest with other entities;
- uncertainties as to future development and implementation of future technologies;
- changes in accounting policies and methods may affect how the financial condition of the Company is reported;
- uncertainties, such as potential breaches of contracts (i.e. property agreements), could result in significant loss;
- 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, amounts receivable, accounts payable and accrued liabilities are held in either Canadian or US dollars and are therefore subject to fluctuations in exchange rates;
- Investment in the Company's shares is highly speculative and investors risk losing their entire investment.

## **DIVIDENDS**

Africo has no earnings or dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for mineral exploration and development. Any future determination to pay dividends will be at the discretion of the Board of Directors of Africo and will depend on Africo's financial condition, results of operations, capital requirements and such other factors as the Board of Directors of Africo deem relevant.

## NATURE OF THE SECURITIES

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

## PROPOSED TRANSACTIONS

At the present time, there are no proposed transactions that are required to be disclosed.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## OUTSTANDING SHARE DATA

Africo's authorized capital consists of an unlimited number of common shares without par value. As at August 10, 2011, the following common shares, options and share purchase warrants were outstanding:

	# of Shares	Exercise Price	Expiry Date
Issued and Outstanding Common Shares at August 10, 2011	71,311,278	N/A	N/A
Incentive Stock Options	485,000	CDN \$2.31	November 18, 2012
	1,630,000	CDN \$1.00	December 9, 2014
	100,000	CDN \$1.00	January 11, 2015
	325,000	CDN \$1.00	October 7, 2015
	1,010,000	CDN \$1.55	April 18, 2016
Share Purchase Warrants	1,731,602	CDN \$2.89	November 27, 2012
Fully Diluted at August 10, 2011	<u>76,592,880</u>		

The Company also has an obligation under a plan of arrangement with Rubicon Minerals Corporation, among others, which was completed on December 8, 2006, to issue shares to pre-existing Rubicon option and warrant holders. All consideration with respect to these shares is payable to Rubicon. A total of 1,859 shares remain to be issued to these option and warrant holders or to Rubicon as of August 10, 2011 for no additional consideration.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on past experience, industry trends and known commitments and events. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in such estimates in future periods could be significant. Actual results will likely differ from those estimates.

### **Carrying value of deferred mineral interests**

The Company has capitalized the cost of acquiring mineral property interests. Capitalized property costs are expensed in the period in which the Company determines that the mineral property interests have no future economic value. Capitalized property costs may also be written down if future cash flow, including potential sales proceeds and option payments, related to the property are estimated to be less than the carrying value of the property. The Company reviews the carrying value of its mineral properties periodically, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, reductions in the carrying value of each property would be recorded to the extent that the carrying value of the investment exceeds the property's estimated fair value. Such events or changes in circumstances involve changes in political risk, economic risk, commodity prices, exchange rates, and interest rates among others. The Company has determined that there is no impairment in the carrying value of the Kalukundi Property.

### **Share-based payments and derivative financial liabilities**

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options and compensatory warrants granted. This model is subject to various assumptions. The assumptions the Company makes will likely change from time to time. At the time the fair value is determined the methodology the Company uses is based on historical information, as well as anticipated future events. The assumptions with the greatest impact on fair value are those for estimated stock volatility and for the expected life of the instrument.

### **Deferred 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 deferred income tax asset is recognized. The Company has taken a valuation allowance against all such potential tax assets.

### **Closure and Reclamation costs**

Closure and reclamation costs are estimates based on the Company's assessment of the work that is anticipated to remediate the Company's current properties. These assessments were conducted by Michael J. Evans, Africo's Consulting Geologist, who is a Qualified Person under National Instrument 43-101 (NI 43-101). The provision for closure and reclamation is recognized initially at fair value with a corresponding increase in the related asset. It is then accreted to full value over time through periodic changes to operations. The provision for closure and reclamation which has been recorded in Africo's condensed consolidated interim financial statements is based on the estimated discounted cost to reclaim at June 30, 2011. Actual costs incurred during reclamation and the timing of when the costs will be incurred could be materially different from these estimates.

## TRANSACTIONS WITH RELATED PARTIES

Details of the transactions between the Company and related parties are disclosed below:

### Trading Transactions

The Company's related parties consist of a majority shareholder, a company affiliated with a majority shareholder and companies owned by executive officers as follows:

	<b>Nature of Transactions</b>
Camrose Resources Limited	Majority Shareholder
Oakton Global South Africa (Pty) Ltd.	Consulting
L.M. Okada Ltd.	Management
143 Investments Ltd.	Management

The Company incurred fees and expenses in the normal course of operations in connection with companies owned by key management and a company affiliated with the majority shareholder. Details are as follows:

	<b>Note</b>	<b>June 30, 2011</b>	June 30, 2010
Consulting fees	(i)	<b>\$ 240,000</b>	\$ 250,000
Management fees	(ii)	<b>205,069</b>	187,199
<b>Total Amount Included in General and Administrative Costs</b>		<b>\$ 445,069</b>	\$ 437,199

- (i) A subsidiary of the Company has appointed Oakton Global South Africa (Pty) Ltd. ("Oakton"), a company affiliated with a majority shareholder, to provide administrative and technical consulting services effective August 1, 2009. The total amount paid to Oakton during the six months ended June 30, 2011 amounted to \$240,000 (June 30, 2010 - \$250,000) and this has been recorded in general and administrative costs.
- (ii) The Company paid fees to a private company controlled by a director of the Company for consulting services performed outside of his capacity as a director. The total amount paid during the six months ended June 30, 2011 was \$167,877 (June 30, 2010 - \$158,025). The Company also paid fees to a private company controlled by an officer of the Company for consulting services. The total amount paid during the six months ended June 30, 2011 was \$37,192 (June 30, 2010 - \$29,174).
- (iii) Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable at June 30, 2011 included \$28,900 (December 31, 2010 - \$39,966) which were due to directors and a private company controlled by a director of the Company.

### Compensation of Key Management Personnel

The remuneration of directors and other members of key management personnel during the six months ended June 30, 2011 and 2010 were as follows:

	Note	June 30, 2011	June 30, 2010
Consulting and directors' fees	(i)	\$ 289,266	\$ 265,970
Share-based payments	(ii)	404,808	42,851
		<b>\$ 694,074</b>	<b>\$ 308,821</b>

- (i) Consulting and directors' fees include management fees disclosed on the previous page.
- (ii) Share-based payments are the fair value of options granted and vested to key management personnel, translated at the grant date foreign exchange rate.
- (iii) Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the six months ended June 30, 2011 and 2010.

## FINANCIAL INSTRUMENTS

### Fair Value

The Company has classified its cash and cash equivalents as loans and receivables and short-term investments as fair value through profit or loss. Accounts receivable and prepayments are classified as loans and receivables. Accounts payable and accrued liabilities are classified as borrowings and other financial liabilities. Outstanding common share purchase warrants having exercise prices denominated in Canadian dollars are classified as derivative financial liabilities. As of June 30, 2011, the statement of financial position carrying amounts of these financial instruments closely approximate their fair values.

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following provides a comparison of carrying values of each classification of financial instruments as at June 30, 2011, June 30, 2010 and December 31, 2010:

	<b>June 30, 2011</b>	June 30, 2010	December 31, 2010
Loans and receivables	\$ <b>71,029,897</b>	\$ 49,136,836	\$ 75,710,855
Borrowings and other financial liabilities	\$ <b>181,834</b>	\$ 76,234	\$ 253,960
Derivative financial liabilities	\$ <b>88,808</b>	\$ 842,072	\$ 599,751

### **Financial risk management**

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

#### **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. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the maximum exposure to credit risk.

#### **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, short-term investments, accounts receivable and accounts payable and accrued liabilities are held in either Canadian or US dollars and are therefore subject to fluctuations in exchange rates.

The Company had the following balances in Canadian dollars as at June 30, 2011:

	<b>Canadian Dollars</b>
Cash and cash equivalents	\$ 1,560,013
Short-term investments	7,548,349
<b>Net balance</b>	<b>\$ 9,108,362</b>
<b>Equivalent in US dollars</b>	<b>\$ 9,443,611</b>
<b>US dollars held by the Company and its wholly owned subsidiaries</b>	<b>69,288,488</b>
<b>Total cash and cash equivalents and short-term investments</b>	<b>\$ 78,732,099</b>

As at June 30, 2011, a 1% increase (decrease) in the US to Canadian exchange rates on that date would have resulted in a decrease (increase) to the net loss of approximately \$91,000 with respect to the net balance of \$9,108,362 above.

### 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 and short-term investments include deposits which are at variable interest rates. For the six months ended June 30, 2011, a plus or minus 0.5% change in market interest rates would affect the Company's interest earned on cash and cash equivalents and short-term investments by approximately \$45,500 with respect to the net balance of \$9,108,362 above.

### 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 attempts to manage liquidity risk by maintaining sufficient cash and cash equivalent balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As of June 30, 2011, the Company had cash and cash equivalents of \$70,905,920 (December 31, 2010 - \$75,639,235) and short-term investments of \$7,826,179 (December 31, 2010 - \$4,531,870) to settle accounts payable and accrued liabilities of \$181,834 (December 31, 2010 - \$253,960).

## **CAPITAL DISCLOSURE**

In the management of capital, the Company considers shareholders' equity. 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 properties. 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 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.

The property in which the Company currently has a 75% interest in is in the development stage and the Company is dependent on external financing to take the project into development. 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 six months ended June 30, 2011 as compared to the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

## **CONTROLS AND PROCEDURES**

### **Internal Control Over Financial Reporting**

The Company's management is responsible for establishing adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management has evaluated the effectiveness of the design and operation of the Company's internal control over financial reporting as of the period covered by this report. Based on the result of the assessment, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting are effective.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate in order to permit timely decisions regarding public disclosure.

Management, including the acting Chief Executive Officer and acting Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the acting Chief Executive Officer and acting Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

## **CORPORATE GOVERNANCE**

### **Composition of the Board of Directors**

The Board of Directors of Africo is at present comprised of six directors, two of whom are considered to be independent.

## **FORWARD LOOKING STATEMENTS**

The Company's condensed consolidated interim financial statements for the six months ended June 30, 2011 and this accompanying MD&A contain certain statements that may be deemed "forward-looking statements". All statements in this document, other than statements of historical fact, that address events or developments that the Company expects to occur, are forward looking statements. Forward looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates",

“believes”, “intends”, “estimates”, “projects”, “potential”, “interprets” and similar expressions, or that events or conditions “will”, “would”, “may”, “could” or “should” occur. Forward-looking statements in this document include statements regarding future exploration programs and joint venture partner participation, liquidity and effects of accounting policy changes. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration success, continued availability of capital and financing, inability to obtain required regulatory or governmental approvals and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward looking statements are based on the beliefs, estimates and opinions of the Company’s management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management’s beliefs, estimates or opinions, or other factors, should change except as required by law.

These statements are based on a number of assumptions, including, among others, assumptions regarding general business and economic conditions, the timing of the receipt of regulatory and governmental approvals for the transactions described herein, the ability of Africo and other relevant parties to satisfy stock exchange and other regulatory requirements in a timely manner, the availability of financing for Africo’s proposed transactions and exploration and development programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause results to differ materially.

## **APPROVAL**

The Board of Directors of Africo Resources Ltd. has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided upon request.

## **Additional Information**

Additional information relating to Africo Resources Ltd., including the Company’s Annual Information Form for the fiscal year ended December 31, 2010, can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com) or by contacting:

Africo Resources Ltd.  
Attention: Chris Theodoropoulos, Acting President and Chief Executive Officer  
Suite 520 – 800 West Pender Street  
Vancouver, British Columbia Canada V6C 2V6  
Tel: (604) 646-3225 Fax: (604) 646-3226  
Website: [www.africoresources.com](http://www.africoresources.com)  
Email: [info@africoresources.com](mailto:info@africoresources.com)

## **AFRICO RESOURCES LTD.**

/s/ “Chris Theodoropoulos”  
Chris Theodoropoulos  
Acting President and Chief Executive Officer

## **AFRICO RESOURCES LTD.**

/s/ “Larry Okada”  
Larry Okada, CA  
Acting Chief Financial Officer