

**AFRICO RESOURCES LTD.**

Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

*(Stated in US Dollars)*

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The accompanying consolidated financial statements of Africo Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles, which framework has been reflected in the summary of significant accounting policies in these consolidated financial statements.

In fulfilling their responsibilities, management of the Company 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 Audit Committee of the Board of Directors meets periodically with the Company's management and the independent auditors to review the scope of the annual audit and to review the annual consolidated financial statements and related financial reporting items prior to submitting the consolidated financial statements to the Board of Directors for approval.

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

*"Chris Theodoropoulos"*

Chris Theodoropoulos  
Chairman and Chief Executive Officer

*"Larry Okada"*

Larry Okada  
Chief Financial Officer

March 24, 2010

**To the Shareholders of Africo Resources Ltd.**

We have audited the consolidated balance sheets of Africo Resources Ltd. (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of loss and deficit, comprehensive income (loss) and accumulated other comprehensive loss, 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 whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

***(signed) PricewaterhouseCoopers LLP***

Chartered Accountants  
Vancouver, British Columbia  
March 29, 2010

**AFRICO RESOURCES LTD.**

Consolidated Balance Sheet  
(Stated in US Dollars)

	As at December 31, 2009	(Restated – Note 2b) As at December 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 49,098,064	\$ 52,876,823
Short-term investments (Note 5)	31,325,906	24,731,839
Accounts receivable and prepayments	90,780	296,658
<b>Total Current Assets</b>	<b>80,514,750</b>	<b>77,905,320</b>
<b>Other assets</b>	<b>-</b>	<b>15,577</b>
<b>Mineral properties</b> (Note 6)	<b>14,800,578</b>	<b>13,200,578</b>
<b>Total Assets</b>	<b>\$ 95,315,328</b>	<b>\$ 91,121,475</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 4)	\$ 282,171	\$ 1,864,192
<b>Total current liabilities</b>	<b>282,171</b>	<b>1,864,192</b>
<b>Asset retirement obligation</b> (Note 7)	<b>210,876</b>	<b>210,876</b>
<b>Total Liabilities</b>	<b>493,047</b>	<b>2,075,068</b>
<b>Shareholders' Equity</b>		
Common shares (Note 8a)	129,874,527	133,042,257
Contributed surplus (Note 8b)	8,864,106	5,331,673
Share purchase warrants (Note 8d)	11,453,983	11,525,231
Deficit	(51,395,698)	(44,307,488)
Accumulated other comprehensive loss	(3,974,637)	(16,545,266)
<b>Total Shareholders' Equity</b>	<b>94,822,281</b>	<b>89,046,407</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 95,315,328</b>	<b>\$ 91,121,475</b>

**Subsequent Events** (Note 12)

Approved by the Board of Directors:

“Matthew Fisher”

Matthew Fisher  
Director

“Douglas Ryan”

Douglas Ryan  
Director

**AFRICO RESOURCES LTD.**

Consolidated Statement of Loss and Deficit, Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss  
(Stated in US Dollars)

	For the year ended December 31, 2009	(Restated – Note 2b) For the year ended December 31, 2008
<b>Expenses</b>		
Exploration expenses	\$ 3,354,606	\$ 5,133,194
General and administrative costs	1,487,000	5,187,909
Professional fees	234,015	1,398,364
Stock based compensation (Note 8c)	1,525,083	135,000
Stock exchange, filing and transfer agents fees	64,850	137,611
Travel	68,514	539,279
<b>Loss before other items:</b>	<b>(6,734,068)</b>	<b>(12,531,357)</b>
Foreign exchange gain (loss)	(1,325,996)	243,200
Interest and other income	971,854	1,165,908
<b>Loss for the year</b>	<b>(7,088,210)</b>	<b>(11,122,249)</b>
<b>Deficit, beginning of the year</b>	<b>(44,307,488)</b>	<b>(33,185,239)</b>
<b>Deficit, end of the year</b>	<b>\$ (51,395,698)</b>	<b>\$ (44,307,488)</b>
<b>Basic loss per common share</b>	<b>\$ (0.10)</b>	<b>\$ (0.24)</b>
<b>Weighted average number of common shares outstanding</b>	<b>72,369,249</b>	<b>47,114,787</b>
<b>Comprehensive Income (Loss)</b>		
<b>Loss for the year before comprehensive income (loss)</b>	<b>\$ (7,088,210)</b>	<b>\$ (11,122,249)</b>
Unrealized foreign exchange gain (loss) on available-for-sale financial instruments	12,570,629	(16,545,266)
<b>Comprehensive Income (Loss) for the year</b>	<b>\$ 5,482,419</b>	<b>\$ (27,667,515)</b>
<b>Accumulated Other Comprehensive Loss</b>		
<b>Balance, beginning of year</b>	<b>\$ (16,545,266)</b>	<b>\$ -</b>
Unrealized foreign exchange gain (loss) on available-for-sale financial instruments	12,570,629	(16,545,266)
<b>Balance, end of year</b>	<b>\$ (3,974,637)</b>	<b>\$ (16,545,266)</b>

- See accompanying notes to the consolidated financial statements -

## AFRICO RESOURCES LTD.

Consolidated Statement of Cash Flows  
(Stated in US Dollars)

	For the year ended December 31, 2009	(Restated – Note 2b) For the year ended December 31, 2008
<b>Operating Activities</b>		
Net loss for the year	\$ (7,088,210)	\$ (11,122,249)
Adjustment for items which do not involve cash:		
Stock based compensation	1,525,083	135,000
	<b>(5,563,127)</b>	<b>(10,987,249)</b>
Changes in non-cash working capital components:		
Other assets, accounts receivable and prepayments	221,455	(36,629)
Accounts payable and accrued liabilities	(1,582,022)	986,995
<b>Cash used in operating activities</b>	<b>(6,923,694)</b>	<b>(10,036,883)</b>
<b>Investing Activities</b>		
Short term investments	(1,679,374)	(30,075,184)
Mineral property costs	(1,600,000)	-
<b>Cash used in investing activities</b>	<b>(3,279,374)</b>	<b>(30,075,184)</b>
<b>Financing Activities</b>		
Common shares and warrants issued (redeemed) for cash – net	(1,231,627)	98,674,516
<b>Cash provided by (used in) financing activities</b>	<b>(1,231,627)</b>	<b>98,674,516</b>
	<b>(11,434,695)</b>	<b>58,562,449</b>
<b>Effect of foreign exchange on cash and cash equivalent balances</b>	<b>7,655,936</b>	<b>(11,201,921)</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>(3,778,759)</b>	<b>47,360,528</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>52,876,823</b>	<b>5,516,295</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 49,098,064</b>	<b>\$ 52,876,823</b>
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities</b>		
Shares issued in respect of Akam mineral property settlement	\$ -	\$ 10,944,909

- See accompanying notes to the consolidated financial statements -

# AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008  
(Stated in US Dollars)

## 1. NATURE OF OPERATIONS

Africo Resources Ltd. (“the Company” or “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, located in the Democratic Republic of the Congo (“DRC”) and also has a gold exploration property located in the Republic of Zambia.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting and Consolidation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. 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”), Africo DRC S.p.r.l. and Swanmines S.p.r.l. All significant inter-company transactions are eliminated upon 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 certain new CICA guidelines described in Note 2s, Note 2t and Note 2u and had retrospectively changed its accounting policy related to exploration expenditures as described in Note 2b.

### (b) Change in Accounting Policy – Mineral Properties

During the year ended December 31, 2009, the Company retrospectively changed its accounting policy for exploration expenditures to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended December 31, 2009, the company capitalized exploration expenditures and acquisition costs to mineral properties held directly or through an investment, and only wrote down capitalized costs when the property was sold, abandoned or if the capitalized costs were not considered to be economically recoverable.

Exploration expenditures are now 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. The impact of this change on the previously reported December 31, 2008 consolidated financial statements is as follows:

	As previously reported	Restatement	As Restated
Mineral property costs at December 31, 2008	\$ 52,071,128	\$ (38,870,550)	\$ 13,200,578
Future income tax liability	10,949,034	(10,949,034)	-
Exploration expenses for the year ended December 31, 2008	-	5,133,194	5,133,194
Loss for the year ended December 31, 2008	\$ 5,989,055	\$ 5,133,194	\$ 11,122,249
Loss per share for the year ended December 31, 2008	(0.13)	(0.11)	(0.24)
Deficit at December 31, 2008	\$ 16,385,972	\$ 27,921,516	\$ 44,307,488
Deficit at December 31, 2007	10,396,921	22,788,318	33,185,239

## **AFRICO RESOURCES LTD.**

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008

*(Stated in US Dollars)*

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

#### **(c) Use of Estimates**

The preparation of financial statements in conformity with Canadian 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.

#### **(d) Foreign Currency Translation**

The Company's reporting currency and unit of measure is the US dollar. Transactions denominated in other currencies are translated into their US dollar equivalents at exchange rates prevailing at the transaction date. 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 its integrated foreign subsidiaries. Under this method the Company's subsidiaries are translated as follows:

- Monetary assets and liabilities at the exchange rate in effect at the balance sheet date;
- Non-monetary assets, liabilities and equity at historical exchange rates;
- Revenue and expense items at the rate of exchange prevailing at the transaction date, except for amortization which is recorded at historical exchange rates.

Gains and losses on translation, except those relating to available-for-sale investments, are included in the consolidated statement of loss and deficit.

#### **(e) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, term deposits and short-term highly liquid investments with an original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value. Cash and cash equivalents are stated at cost, which approximates their fair value.

#### **(f) Short-term Investments**

Short-term investments comprise mainly of cashable Guaranteed Investment Certificates (GIC's) with original terms to maturity ranging from nine to twelve months.

## **AFRICO RESOURCES LTD.**

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008

(Stated in US Dollars)

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

#### **(g) Mineral Properties**

During the year ended December 31, 2009, the Company changed its accounting policy relating to mineral property exploration expenditures and it now expenses exploration expenditures when incurred (*Note 2b*).

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, title to all of its properties are in good standing.

#### **(h) Asset Retirement Obligations**

The Company recognizes the fair value of legal obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs are recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life. Any liability is subject to accretion over time for increases in the fair value of the liability.

#### **(i) Share Capital**

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

#### **(j) Income Taxes**

The Company accounts for income taxes under the asset and liability method. Under the asset and liability method, the change in the net future tax asset or liability is included in income. The income tax effects of temporary differences between the time when income and expenses are recognized in accordance with Company accounting practices and the time they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using statutory enacted tax rates expected to be in effect when the temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. A valuation allowance is established, as needed, to reduce the future income tax asset to the amount that is more likely than not to be realized.

## **AFRICO RESOURCES LTD.**

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008

*(Stated in US Dollars)*

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

#### **(k) 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.

#### **(l) Stock-based Compensation**

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of options is charged to operations immediately or on the basis of the vesting period, which may be determined by the Board of Directors, with the offsetting credit to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

#### **(m) Basic Loss per Share**

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. Since the Company has losses, fully diluted loss per share is not presented as the exercise of outstanding stock options and warrants would be anti-dilutive.

#### **(n) Impairment of Long-Lived Assets**

Management reviews and evaluates the carrying value of its mineral properties and property and equipment for impairment when events or changes in circumstances indicate that the carrying amount of the related asset may not be recoverable. If the total estimated future operating cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value which is normally determined using the discounted value of future cash flows. Where estimates of future cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired, it is written down to its estimated fair value.

#### **(o) Comprehensive Income (Loss)**

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income (loss) includes the holding gains and losses from available for sale securities which are not included in net income (loss) until realized.

## **AFRICO RESOURCES LTD.**

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008  
(Stated in US Dollars)

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

#### **(p) Financial Instruments – Recognition and Measurement**

Section 3855 requires that all financial instruments are classified as one of the following: held-to-maturity investments, loans and receivables, available-for-sale, held-for-trading or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost, using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits the designation of any financial instruments as held-for-trading upon initial recognition.

All derivative instruments, including certain embedded derivatives that are required to be separated from their host contracts, are recorded on the balance sheet at fair value and market-to-market adjustments on these instruments are included in net income. The Company has no derivative instruments.

The following is a summary of the accounting model the Company elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents .....	Available-for-sale
Short-term investments .....	Available-for-sale
Accounts receivable and prepayments .....	Loans and receivables
Accounts payable and accrued liabilities .....	Other financial liabilities

All other financial instruments are recorded at cost or amortized cost, subject to impairment assessments. Interest is calculated using the effective interest method.

Transaction costs incurred to acquire or issue financial instruments are included in the initial carrying amount of the relevant financial instrument.

Where a financial asset classified as held-to-maturity or available-for-sale has a loss in value which is considered to be other than temporary, the financial asset is written down to recognize the loss by a charge to earnings.

#### **(q) General Standards of Financial Statement Presentation**

The Company adopted the provisions of CICA 1400, “General Standards of Financial Statement Presentation,” which was amended to include requirements to assess and disclose 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 in the prior fiscal year and the adoption of this section did not have an impact on the consolidated financial statements.

## **AFRICO RESOURCES LTD.**

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008  
(Stated in US Dollars)

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

#### **(r) Financial Instruments – Disclosure and Presentation**

The Company previously adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. The objective of these 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 and the impact of adopting this section is disclosed in Note 10.

#### **Adoption of New Canadian Accounting Pronouncements**

The Company has adopted the following CICA guidelines during the fiscal year:

#### **(s) Credit Risk and Fair Value of Financial Assets and Financial Liabilities**

Effective January 2009, the CICA approved EIC-173 "Credit Risk and Fair Value of Financial Assets and Financial Liabilities." This guidance clarified 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. The Company has evaluated this new section and has determined that the adoption of these new requirements has not had an impact on the Company's consolidated financial statements.

#### **(t) Mining Exploration Costs**

Effective March 2009, the CICA approved EIC-174 "Mining Exploration Costs." This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company has evaluated this new section and has determined that the adoption of these new requirements has not had an impact on the Company's consolidated financial statements.

#### **(u) Financial Instruments - Disclosure, Section 3862**

In June 2009, Handbook Section 3862 was further amended to include disclosures about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The additional fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising of three levels reflecting the significance of the inputs used in making the measurements, described as follows:

**Level 1:** Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2:** Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

## **AFRICO RESOURCES LTD.**

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008  
(Stated in US Dollars)

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

#### **(u) Financial Instruments - Disclosure, Section 3862** *(continued)*

**Level 3:** Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

These amendments are required to be adopted for fiscal years ending after September 20, 2009. The Company has adopted these amendments for the fiscal year ended December 31, 2009 and the additional required disclosures are included in Note 10.

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### **3. RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS**

The accounting policies followed by the company are set out in Note 2 to the consolidated financial statements and these policies have been adopted except for recent Canadian accounting pronouncements which will be adopted January 1, 2010. 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:

#### **Business Combinations, Consolidated Financial Statements and Non-controlling Interests**

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 1582, 1601 and 1602 relating to the acquisition method of accounting, consolidated financial statements and non-controlling interests. These standards apply prospectively to business combinations from January 1, 2011. The Company has evaluated this new section and has determined that the adoption of these new requirements has not had a material impact on the Company's consolidated financial statements.

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### **4. RELATED PARTY TRANSACTIONS**

Consulting fees and expenses relating to legal, financial, investor relations and other corporate matters, and salaries paid to Directors, former Directors, and organizations having common Directors totalled \$929,972 for the year ended December 31, 2009 (2008 - \$2,274,112). Of this amount, \$71,928 (2008 - \$97,122) is included in accounts payable and accrued liabilities.

A subsidiary of the Company has appointed Oakton Global South Africa (Pty) Ltd., a company associated with a major shareholder, to provide administrative and technical consulting services for a fee of \$50,000 per month effective August 1, 2009. The total amount paid to Oakton as of December 31, 2009 amounted to \$250,000.

Related party transactions are in the normal course of business and occur on terms similar to transactions with non-related parties, and therefore are measured at the exchange amount. Other related party transactions are disclosed elsewhere in the notes to the consolidated financial statements.

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## AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008  
(Stated in US Dollars)

### 5. SHORT-TERM INVESTMENTS

As at December 31, 2009, the Company has approximately CDN \$32,837,000 (2008 - \$30,124,042) invested in various Guaranteed Investment Certificates (“GICs”) with a Canadian Financial Institution. These GICs are yielding interest at rates ranging from 0.5% to 0.6% and with maturity dates ranging from 9 to 12 months.

### 6. MINERAL PROPERTIES

Details of the Company’s mineral property acquisition costs are as follows:

	Kalukundi (Congo)	Mporokoso (Zambia)
Balance, December 31, 2007	\$ 2,255,669	\$ -
Akam settlement payment (Note 8a)	10,944,909	-
Balance, December 31, 2008	13,200,578	-
Entry payment – GCM (Note 6a)	1,600,000	-
<b>Balance, December 31, 2009</b>	<b>\$ 14,800,578</b>	<b>\$ -</b>

Details of the Company’s mineral property expenditures, which have been expensed in the statement of loss in the period incurred are as follows:

	Kalukundi (Congo)	Mporokoso (Zambia)	Total
Balance, December 31, 2007	\$ 22,755,234	\$ 150,544	\$ 22,905,778
Exploration expenditures	5,030,192	103,002	5,133,194
Balance, December 31, 2008	27,785,426	253,546	28,038,972
Exploration expenditures	3,335,884	18,722	3,354,606
<b>Balance, December 31, 2009</b>	<b>\$ 31,121,310</b>	<b>\$ 272,268</b>	<b>\$ 31,393,578</b>

## **AFRICO RESOURCES LTD.**

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008  
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### **6. MINERAL PROPERTIES** *(continued)*

#### **(a) Kalukundi**

In March, 2001 La Générale des Carrières et des Mines (“GCM”), an entity controlled by the Government of the Democratic Republic of the Congo (“DRC”), entered into an agreement with a private company in the DRC to establish a joint venture company and to transfer title to the Kalukundi Property to the joint venture company, which was named Swanmines S.p.r.l. The property interest is evidenced by an Exploration and Exploitation Permit which is valid until October 2021. The original agreement with GCM has subsequently been amended by various agreements between May 2003 and January 2009. The material remaining consolidated terms of the original agreement and the amendments are as follows:

#### **Ownership**

The Kalukundi Property is owned 100% by Swanmines S.p.r.l. (“Swanmines”), a company incorporated in the DRC, and Swanmines is owned 75% by the Company and 25% by GCM;

#### **Company Obligations**

1. Finance and prepare a Feasibility Study *(completed)*;
2. Secure the necessary financing to commence commercial production, including the building of a metallurgical processing plant;
3. Make an entry payment of \$6,400,000 from 2009 until 2012 in four annual equal instalments - *(2 instalments of \$1,600,000 have been made in 2009 and 2010)*;
4. Reserve a 2.5% gross turnover royalty to GCM and a 2% Net Smelter Returns royalty payable to the Government under the terms of the Mining Code of the DRC; and
5. Reserve an additional royalty to GCM based on \$35 per ton of copper on reserves exceeding 180,000 tons.

#### **Profit Sharing**

The Company will receive 70% of the tax free profits until its investments (loans and interest) are reimbursed with 30% of remaining profits to be allocated based on ownership.

#### **(b) 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.

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## AFRICO RESOURCES LTD.

Notes to the Consolidated Financial Statements – for the years ended December 31, 2009 and 2008  
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### 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 (2008- \$210,876).

### 8. SHAREHOLDERS' EQUITY

#### (a) Common Shares

##### Authorized:

Unlimited number of common voting shares without par value

##### Issued:

	<b># of Shares</b>	<b>Amount (USD)</b>
<b>Balance, December 31, 2007</b>	<b>27,211,705</b>	<b>\$ 33,392,832</b>
Shares issued under 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)
<b>Balance, December 31, 2008</b>	<b>72,615,172</b>	<b>\$ 133,042,257</b>
Shares issued under plan of arrangement	36,123	-
Repurchase of shares	(1,731,000)	(3,167,730)
<b>Balance, December 31, 2009</b>	<b>70,920,295</b>	<b>\$ 129,874,527</b>

#### **Fiscal Year Ended December 31, 2009**

Under the plan of arrangement completed during 2006, the Company has reserved shares for issuance to option and warrant holders of Rubicon Minerals Corp. ("Rubicon") for no further consideration. During the fiscal year ended December 31, 2009, the Company issued a total of 36,123 common shares to Rubicon under the plan of arrangement. At year end, 192,842 shares remain to be issued under the plan.

On November 3, 2009, the Company repurchased 1,731,000 of its common shares from a Director of the Company at a price of CDN \$0.76 per share. The subject shares had been purchased by the Director on September 22, 2009 from a third party through the facilities of the TSX at a price of CDN \$0.75 per share. As the cost of the repurchased shares is less than their assigned value of \$3,167,730, the difference between the cash consideration paid by the Company and the assigned value has been credited to contributed surplus in the amount of \$1,936,102 (Note 8b). The repurchased shares were immediately cancelled.

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### **8. SHAREHOLDERS' EQUITY** *(continued)*

#### **(a) Common Shares** *(continued)*

##### **Fiscal Year Ended December 31, 2008**

On July 24, 2008, Africo completed a private placement of 40,000,000 units at a price of CDN \$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 CDN \$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 CDN \$0.50 (\$0.50) per warrant. These warrants expired in January, 2010.

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.

Concurrently with execution of the Subscription Agreement on April 17, 2008 Camrose loaned CDN \$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”) a company involved in a dispute with Africo in respect of the ownership of Swanmines. Akam purportedly held, indirectly through Swanmines S.p.r.l. (“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 CDN \$13,500,000, paid by issuing 5,400,000 common shares of Africo at a price per share of CDN \$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 CDN \$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 had 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. With the consent of Africo’s shareholders obtained at the Annual and Special Meeting held on June 18, 2009, the parties have terminated Africo’s obligation to acquire a 75% interest in the Mashitu property.

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### 8. SHAREHOLDERS' EQUITY (continued)

#### (b) Contributed Surplus

	Year ended December 31, 2009 (USD)	Year ended December 31, 2008 (USD)
<b>Outstanding at beginning of year</b>	<b>\$ 5,331,673</b>	<b>\$ 4,033,408</b>
Stock options granted - fair value (Note 8c)	1,525,083	135,000
Transfer in respect of expired warrants (Note 8d)	71,248	1,163,265
Repurchase of shares (Note 8a)	1,936,102	-
<b>Outstanding at end of year</b>	<b>\$ 8,864,106</b>	<b>\$ 5,331,673</b>

#### (c) Stock Options

##### Fiscal year ended December 31, 2009 – Grants

On December 9, 2009, the Company granted 1,630,000 incentive stock options, at an exercise price of CDN \$1.00 per share, to directors, officers and employees. These options have a five year term and vested immediately upon grant. Stock based compensation expense of USD \$1,300,083 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 were as follows:

Dividend Yield	:	0%
Risk free interest rate	:	2.42%
Expected volatility	:	140%
Expected life of option	:	5 years

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

##### Options Outstanding and Exercisable

	Number of shares	Weighted- average exercise price
<b>Balance, December 31, 2007</b>	3,975,000	CDN\$ 1.95
Granted	400,000	CDN\$ 2.50
<b>Balance, December 31, 2008</b>	4,375,000	CDN\$ 2.00
Granted	1,630,000	CDN\$ 1.00
Expired	(2,670,000)	CDN\$ 2.16
<b>Balance, December 31, 2009</b>	<b>3,335,000</b>	<b>CDN\$ 1.38</b>

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### 8. SHAREHOLDERS' EQUITY (continued)

#### (c) Stock Options (continued)

At December 31, 2009 the following incentive stock options were outstanding and exercisable:

<b>Number outstanding</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Exercise price</b>
640,000	0.46	CDN\$ 0.75
25,000	0.88	CDN\$ 1.75
785,000	2.88	CDN\$ 2.31
255,000	1.25	CDN\$ 2.50
1,630,000	4.94	CDN\$ 1.00
<b>3,335,000</b>		<b>CDN\$ 1.38</b>

#### Fiscal year ended December 31, 2008 – Grants

During 2008, the Company granted 400,000 stock options, at an exercise price of CDN \$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 vested on the first anniversary of the Camrose private placement. Stock based compensation expense of USD \$225,000 (2008 - \$135,000) has been recorded in operations and credited to contributed surplus in respect of the vested options. These options expired in August, 2009.

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

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

During 2008, the Company modified its incentive stock option 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.

#### (d) Share Purchase Warrants

A summary of changes to warrants during 2009 and 2008 are as follows:

	<b>Number of warrants</b>	<b>Weighted- average exercise price</b>	<b>Amount (USD)</b>
<b>Outstanding at December 31, 2007</b>	4,569,073	CDN\$ 4.13	\$ 2,718,496
Issued:			
Private placement	20,000,000	CDN\$ 3.50	9,970,000
Expired	(2,688,980)	CDN\$ 5.00	(1,163,265)
<b>Outstanding at December 31, 2008</b>	21,880,093	CDN\$ 3.45	\$ 11,525,231
Expired	(148,491)	CDN\$ 2.89	(71,248)
<b>Outstanding at December 31, 2009</b>	<b>21,731,602</b>	<b>CDN\$ 3.45</b>	<b>\$ 11,453,983</b>

## **AFRICO RESOURCES LTD.**

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### **8. SHAREHOLDERS' EQUITY** *(continued)*

#### **(d) Share Purchase Warrants** *(continued)*

On December 21, 2009, 148,491 warrants expired without exercise. As a result, the fair value assigned to the warrants of \$71,248 has been reclassified to contributed surplus (Note 8b).

The warrants issued to non-related parties in 2008 were valued using the Black-Scholes option-pricing model.

Assumptions used in the pricing model are as follows:

Dividend yield	:	0%
Average risk free interest rate	:	3.1%
Expected volatility	:	90%
Expected life of warrant	:	1.5 years

Outstanding warrants expire at various dates from January 2010 to November 27, 2012.

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### **9. 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 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

## AFRICO RESOURCES LTD.

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### 9. CAPITAL DISCLOSURE (continued)

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, 2009 compared to the year ended December 31, 2008. The Company is not subject to externally imposed capital requirements.

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### 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 financial liabilities. As of December 31, 2009, the Balance Sheet carrying amounts of these financial instruments closely approximate their fair value, and the Company held no derivative instruments.

Available-for-sale financial assets are recorded at fair value as determined by active market prices. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income. If a decline in fair value is deemed to be other than temporary, the unrealized loss is recognized in net earnings. Investments in equity instruments that do not have an active quoted market price are measured at cost.

Loans and receivables are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

As of December 31, 2009, 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.

The following provides a comparison of carrying and fair values of each classification of financial instrument as at December 31, 2009:

	<b>December 31, 2009</b>	December 31, 2008
Available-for-sale	\$ 80,423,970	\$ 77,608,662
Loans and receivables	\$ 90,780	\$ 296,658
Other financial liabilities	\$ 282,171	\$ 1,864,192

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### 10. FINANCIAL INSTRUMENTS (continued)

During the fiscal year ended December 31, 2009, the Company adopted the fair value hierarchy that classifies financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate fair value. The financial instruments from the above schedule, which are covered by the new hierarchy disclosures, are cash and cash equivalents and short-term investments. These are both classified as Level 1 – Quoted prices in active 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.

#### 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. 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 U.S. 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 several currencies (mainly Canadian dollars) and are therefore subject to fluctuation against the U.S. dollar. The Company had the following balances in Canadian Dollars as at December 31, 2009:

	<b>Canadian Dollars</b>
Cash and cash equivalents	\$ 51,359,497
Short-term investments	32,837,000
Accounts receivable	29,343
Accounts payable and accrued liabilities	(181,658)
<b>Net balance</b>	<b>\$ 84,044,182</b>
<b>Equivalent in US Dollars</b>	<b>\$80,049,539</b>

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 \$800,495.

#### 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. 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 \$402,000.

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### 10. FINANCIAL INSTRUMENTS (continued)

#### 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.

### 11. INCOME TAXES

- a) The income tax provision for the year differs from the amount obtained by applying the statutory Canadian federal and provincial income tax rates as follows:

	<b>For the Year Ended December 31, 2009</b>	<i>(Restated)</i> For the Year Ended December 31, 2008
Loss before income taxes	\$ (7,088,210)	\$ (11,122,249)
Statutory Canadian federal and provincial tax rates	<u>30.00%</u>	31.00%
Expected tax recovery	(2,126,463)	(3,447,897)
Adjustments:		
Non-deductible expenses	1,283,095	1,440,058
Foreign income subject to different tax rates	(358,316)	(540,243)
Statutory tax rate difference	72,514	(2,105,615)
Change in valuation allowance and other	1,129,170	4,653,697
Income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>

- b) The components of the future income tax asset (liability) balances by tax jurisdiction are as follows:

#### Canada

	<b>December 31, 2009</b>	December 31, 2008
Future income tax asset (liability):		
Non-capital loss carry-forwards	\$ 1,961,764	\$ 2,018,975
Other temporary differences	622,992	872,323
Valuation allowance	(2,584,756)	(2,891,298)
Future income tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>

The effective income tax rate is the rate that is estimated to be applicable when timing differences reverse. As at December 31, 2009 the future enacted rate in Canada is 25% (2008 – 26%).

The Company has non-capital losses which may be applied to reduce future year's taxable income. As at December 31, 2009, these amounted to \$7,847,058 (December 31, 2008 – \$7,765,288). Of these non-capital losses, \$10,754 will expire in 2014, \$308,529 will expire in 2015, \$1,138,047 will expire in 2026, \$5,120,498 will expire in 2027, \$1,187,460 will expire in 2028 and \$81,770 will expire in 2029.

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### 11. INCOME TAXES (continued)

#### Democratic Republic of Congo (“DRC”)

	December 31, 2009	December 31, 2008
Future income tax asset (liability):		
Non-capital loss carry-forwards	\$ 22,186	\$ 26,676
Mineral property costs - Exploration	13,344,360	11,904,158
Mineral property costs – Acquisition costs	(9,867,052)	(8,800,385)
Valuation allowance	(3,499,494)	(3,130,449)
Future income tax asset (liability)	\$ -	\$ -

The effective income tax rate is the rate that is estimated to be applicable when timing differences reverse. As at December 31, 2009 the future enacted rate in the DRC is 40% (2008 – 40%).

The Company has non-capital losses which may be applied to reduce future year’s taxable income. As at December 31, 2009, these amounted to \$55,464 (December 31, 2008 – \$66,688). Of these non-capital losses, \$5,713 will expire in 2010, \$29,051 will expire in 2011 and \$20,700 will expire in 2012.

### 12. SUBSEQUENT EVENTS

- (a) Subsequent to the year ended December 31, 2009, the Company paid USD \$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 second of four equal annual instalments totalling \$6,400,000 which is considered to be an entry payment.
- (b) On January 11, 2010, Africo issued 100,000 incentive stock options exercisable at CDN \$1.00 per share for a period of five years to an officer and a consultant of the Company.
- (c) On January 24, 2010, 20,000,000 warrants with an exercise price of CDN \$3.50 expired without exercise.
- (d) On February 1, 2010, 75,000 incentive stock options with an exercise price of CDN \$2.31 expired without exercise.
- (e) Other subsequent events have been disclosed elsewhere in the notes to the consolidated financial statements.