

FMG AFRICA FUND LTD.

Financial Statements
(With Auditors' Report Thereon)

March 31, 2011 and 2010

**KPMG**

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Independent Auditors' Report

To the Directors and Shareholders of
FMG Africa Fund Ltd.

We have audited the accompanying financial statements of FMG Africa Fund Ltd. (the "Fund"), which comprise the statement of assets and liabilities, including the schedule of investments, as at March 31, 2011, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

As explained in Note 8, we were unable to obtain sufficient appropriate audit evidence on the fair value of the Fund's investment in Africa Opportunities Fund SAC Ltd – Finch Africa Segregated Account, which had a fair value of \$2,648,691 (59.71% of net assets) at March 31, 2010. Accordingly we were not able to determine whether any adjustments were necessary to the fair value of the investment as at March 31, 2010, or to the net increase in net assets from operations or to net assets attributable to redeemable preference shares in determining the net decrease in net assets from capital share transactions during the year then ended.



Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures for the year ended March 31, 2010 of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

A handwritten signature in black ink, appearing to read 'KPMG'.

Chartered Accountants
Hamilton, Bermuda
December 6, 2011

FMG AFRICA FUND LTD.

Statement of Assets and Liabilities

March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Assets		
Investments in exchange traded funds and other investment companies (cost - \$3,385,620; 2010 - \$6,297,296) (see Schedule of Investments) (Notes 5, 8 and 10)	\$ 3,429,709	\$ 6,985,575
Cash and cash equivalents (Note 5)	328,509	1,021,012
Unrealized gain on forward foreign exchange contracts (Notes 5, 8 and 9)	18,936	–
Receivable for investments sold	–	281,107
Rebate income receivable (Note 3)	13,140	–
Other assets	12,815	13,427
Total assets	<u>3,803,109</u>	<u>8,301,121</u>
Liabilities		
Redemptions payable (Note 6)	87,574	3,706,034
Unrealized loss on forward foreign exchange contracts (Notes 5, 8 and 9)	–	48,658
Subscriptions received in advance	–	27,018
Management fees and incentive fees payable (Note 3)	17,888	44,437
Administration fees payable (Note 4)	–	12,960
Audit fees payable	24,500	21,375
Accounts payable and accrued expenses (Note 3)	300	4,688
Total liabilities	<u>130,262</u>	<u>3,865,170</u>
Net assets	<u>3,672,847</u>	<u>4,435,951</u>
Less: attributable to 100 common shares (Note 6)	<u>(100)</u>	<u>(100)</u>
Net assets attributable to redeemable preference shares (Note 6)	<u>\$ 3,672,747</u>	<u>\$ 4,435,851</u>
Net assets attributable to 27,584 (2010 - 31,628) US Dollar Class A redeemable preference shares	<u>\$ 1,681,566</u>	<u>\$ 2,104,193</u>
Net asset value per US Dollar Class A redeemable preference share	<u>\$ 60.96</u>	<u>\$ 66.52</u>
Net assets attributable to 3,136 (2010 - 2,855) US Dollar Class A09 redeemable preference shares	<u>\$ 311,372</u>	<u>\$ 309,280</u>
Net asset value per US Dollar Class A09 redeemable preference share	<u>\$ 99.28</u>	<u>\$ 108.32</u>
Net assets attributable to 58,949 (2010 - 68,934) US Dollar Class B redeemable preference shares	<u>\$ 395,287</u>	<u>\$ 502,478</u>
Net asset value per US Dollar Class B redeemable preference share	<u>\$ 6.70</u>	<u>\$ 7.28</u>

See accompanying notes to financial statements

FMG AFRICA FUND LTD.

Statement of Assets and Liabilities (continued)

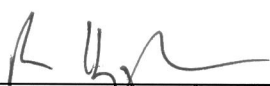
March 31, 2011

(Expressed in United States Dollars)


	<u>2011</u>	<u>2010</u>
Net assets attributable to 9,860 (2010 - nil) US Dollar Class B09 redeemable preference shares	\$ <u>94,537</u>	\$ <u>—</u>
Net asset value per US Dollar Class B09 redeemable preference share	\$ <u>9.58</u>	\$ <u>—</u>
Net assets of \$403,458 (2010 - \$624,140) attributable to 5,141 (2010 - 7,422) Euro Class A redeemable preference shares	€ <u>284,875</u>	€ <u>462,018</u>
Net asset value per Euro Class A redeemable preference share	€ <u>55.41</u>	€ <u>62.26</u>
Net assets of \$129,943 (2010 - \$103,654) attributable to 917 (2010 - 683) Euro Class A09 redeemable preference shares	€ <u>91,677</u>	€ <u>76,729</u>
Net asset value per Euro Class A09 redeemable preference share	€ <u>99.93</u>	€ <u>112.36</u>
Net assets of \$656,584 (2010 - \$763,804) attributable to 79,453 (2010 - 86,310) Euro Class B redeemable preference shares	€ <u>463,003</u>	€ <u>562,746</u>
Net asset value per Euro Class B redeemable preference share	€ <u>5.82</u>	€ <u>6.52</u>
Net assets of \$nil (2010 - \$28,302) attributable to nil (2010 - 1,792) Euro Class B09 redeemable preference shares	€ <u>—</u>	€ <u>20,821</u>
Net asset value per Euro Class B09 redeemable preference share	€ <u>—</u>	€ <u>11.62</u>

See accompanying notes to financial statements

Signed on behalf of the Board



Director



Director

FMG AFRICA FUND LTD.

Schedule of Investments

March 31, 2011

(Expressed in United States Dollars)

	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<u>Other Investment Companies</u>				
FMG Funds SICAV plc – FMG (EU) Africa Fund B09 USD	\$ <u>3,385,620</u>	\$ <u>3,429,709</u>	<u>93.38%</u>	Monthly
Total investments in other investment companies	\$ <u><u>3,385,620</u></u>	\$ <u><u>3,429,709</u></u>	<u><u>93.38%</u></u>	

See accompanying notes to financial statements

FMG AFRICA FUND LTD.

Schedule of Investments

March 31, 2010

(Expressed in United States Dollars)

	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<u>Exchange Traded Funds</u>				
Market Vectors Africa Index	\$ <u>1,569,211</u>	\$ <u>1,685,250</u>	<u>37.99%</u>	
<u>Other Investment Companies</u>				
Africa Opportunities Fund SAC Ltd – Finch Africa Segregated Account	1,859,754	2,648,691	59.71%	Quarterly
The Imara Africa Series Limited – Imara Zimbabwe Opportunities Fund	401,336	316,129	7.13%	Monthly
The Hawkwood Fund Limited – Class A USD Shares - Mukwa Fund	750,000	536,665	12.10%	Quarterly
Duet Victoire Africa Index Fund – US Dollar Share Class IC	116,995	60,016	1.35%	Semi-Monthly
Standard Africa Fund	<u>1,600,000</u>	<u>1,738,824</u>	<u>39.20%</u>	Semi-Monthly
Total investments in other investment companies	<u>4,728,085</u>	<u>5,300,325</u>	<u>119.49%</u>	
Total investments in exchange traded funds and other investment companies	\$ <u>6,297,296</u>	\$ <u>6,985,575</u>	<u>157.48%</u>	

See accompanying notes to financial statements

FMG AFRICA FUND LTD.

Statement of Operations

Year Ended March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Investment income		
Rebate income (Note 3)	\$ 40,509	\$ —
Other income	<u>346</u>	<u>—</u>
Total income	<u>40,855</u>	<u>—</u>
Expenses		
Management fees (Note 3)	74,725	128,957
Incentive fees (Note 3)	11	12,328
Administration fees (Note 4)	30,194	48,110
Audit fees	33,575	25,050
Directors' and secretarial fees	13,500	13,500
Custodian fees (Note 5)	4,828	5,043
Bank charges	3,359	4,185
Bermuda company fees	3,396	3,346
Interest expense	4,010	406
Miscellaneous (Note 3)	<u>12,397</u>	<u>14,784</u>
Total expenses	<u>179,995</u>	<u>255,709</u>
Net investment loss	<u>(139,140)</u>	<u>(255,709)</u>
Realized and unrealized gains and losses on investments		
Net realized gains (losses) on sale of investments	403,075	(2,711,527)
Net realized (losses) gains on forward foreign exchange contracts and foreign exchange	(27,469)	136,978
Net change in unrealized gains and losses on investments	(644,190)	4,093,337
Net change in unrealized gains and losses on forward foreign exchange contracts	<u>67,594</u>	<u>(235,538)</u>
Net realized and unrealized (losses) gains on investments	<u>(200,990)</u>	<u>1,283,250</u>
Net (decrease) increase in net assets from operations	<u>\$ (340,130)</u>	<u>\$ 1,027,541</u>

See accompanying notes to financial statements

FMG AFRICA FUND LTD.

Statement of Changes in Net Assets

Year Ended March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Net (decrease) increase in net assets resulting from operations		
Net investment loss	\$ (139,140)	\$ (255,709)
Net realized gains (losses) on sale of investments	403,075	(2,711,527)
Net realized (losses) gains on forward foreign exchange contracts and foreign exchange	(27,469)	136,978
Net change in unrealized gains and losses on investments	(644,190)	4,093,337
Net change in unrealized gains and losses on forward foreign exchange contracts	<u>67,594</u>	<u>(235,538)</u>
Net (decrease) increase in net assets from operations	<u>(340,130)</u>	<u>1,027,541</u>
From capital share transactions		
Proceeds from sale of 368 (2010 - nil)		
US Dollar Class A redeemable preference shares	23,815	–
Proceeds from sale of 471 (2010 - 2,580)		
US Dollar Class A09 redeemable preference shares	48,800	274,113
Proceeds from sale of nil (2010 - 2,500)		
US Dollar Class B redeemable preference shares	–	17,775
Proceeds from sale of 9,860 (2010 - nil)		
US Dollar Class B09 redeemable preference shares	101,657	–
Proceeds from sale of 2 (2010 - 46)		
EUR Class A redeemable preference shares	793	3,937
Proceeds from sale of 247 (2010 - 697)		
EUR Class A09 redeemable preference shares	36,245	108,771
Proceeds from sale of nil (2010 - 123,980)		
EUR Class B09 redeemable preference shares	–	2,035,466
Payment on redemption of 4,412 (2010 - 7,882)		
US Dollar Class A redeemable preference shares	(277,610)	(493,473)
Payment on redemption of 190 (2010 - 397)		
US Dollar Class A09 redeemable preference shares	(20,613)	(42,000)
Payment on redemption of 9,985 (2010 - 89,379)		
US Dollar Class B redeemable preference shares	(70,892)	(612,588)
Payment on redemption of 2,283 (2010 - 2,213)		
EUR Class A redeemable preference shares	(180,824)	(172,658)
Payment on redemption of 13 (2010 - 14)		
EUR Class A09 redeemable preference shares	(1,660)	(2,093)
Payment on redemption of 6,857 (2010 - 248,092)		
EUR Class B redeemable preference shares	(56,271)	(2,190,418)
Payment on redemption of 1,792 (2010 - 122,188)		
EUR Class B09 redeemable preference shares	<u>(26,414)</u>	<u>(1,941,053)</u>
Net decrease in net assets from capital share transactions	<u>(422,974)</u>	<u>(3,014,221)</u>
Net decrease in net assets attributable to redeemable preference shares	(763,104)	(1,986,680)
Net assets attributable to redeemable preference shares at the beginning of the year	<u>4,435,851</u>	<u>6,422,531</u>
Net assets attributable to redeemable preference shares at the end of the year	<u>\$ 3,672,747</u>	<u>\$ 4,435,851</u>

See accompanying notes to financial statements

FMG AFRICA FUND LTD.

Statement of Cash Flows

Year Ended March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net (decrease) increase in net assets from operations	\$ (340,130)	\$ 1,027,541
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash provided by operating activities:		
Change in assets and liabilities:		
Net change in investments and derivative financial instruments	(190,605)	(1,500,747)
Other assets	612	3,916
Receivable for investments sold	281,107	1,018,893
Rebate income receivable	(13,140)	–
Management fees and incentive fees payable	(26,549)	11,934
Administration fees payable	(12,960)	3,060
Audit fees payable	3,125	1,375
Accounts payable and accrued expenses	<u>(4,388)</u>	<u>(3,410)</u>
Net cash provided by operating activities	<u>(302,928)</u>	<u>562,562</u>
Cash flows from financing activities		
Proceeds from issue of redeemable preference shares	184,292	2,467,080
Payments on redemptions of redeemable preference shares	(573,867)	(2,133,805)
Repayment of loan proceeds	<u>–</u>	<u>(600,000)</u>
Net cash used in financing activities	<u>(389,575)</u>	<u>(266,725)</u>
Net (decrease) increase in cash and cash equivalents	<u>(692,503)</u>	<u>295,837</u>
Cash and cash equivalents at beginning of year	<u>1,021,012</u>	<u>725,175</u>
Cash and cash equivalents at end of year	<u><u>\$ 328,509</u></u>	<u><u>\$ 1,021,012</u></u>
Supplementary cash flow information		
Interest paid	<u><u>\$ 4,010</u></u>	<u><u>\$ 406</u></u>

Non-cash operating and financing activities

During the year ended March 31, 2011, investments with a fair value of \$3,678,877 were transferred in-kind to settle redemption payments (see Note 6).

See accompanying notes to financial statements

FMG AFRICA FUND LTD.

Notes to Financial Statements

March 31, 2011

1. **Operations**

FMG Africa Fund Ltd. (the “Fund”) was incorporated in Bermuda on March 8, 2007 as an open-ended investment fund, empowered by its bye-laws to issue, redeem and reissue its own shares at prices based on their net asset value.

The Fund invests directly or indirectly in other investment companies managed by fund managers in countries on the African continent with a focus on investments in sub-Saharan Africa. Effective April 1, 2010 the Fund achieves this investment strategy by investing in FMG EU Africa Fund, a sub-fund of FMG Funds SICAV plc which is a regulated Malta entity managed by FMG Malta Ltd., an entity related to FMG Fund Managers Limited (the “Manager”).

2. **Significant accounting policies**

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The following are the significant accounting policies adopted by the Fund:

(a) Investment transactions and valuation

Investments are categorized as held for trading in accordance with CICA Section 3855, *Financial Instruments – Recognition and Measurement* (“Section 3855”) and therefore are recorded at fair value. Investments in other investment companies are recorded on the effective date of the subscription and are valued at their net asset value as reported by the administrators of the other investment companies. Where net asset values are not reported on a timely basis, the Manager (Note 3) may estimate the net asset value based on information provided by the other investment companies. The other investment companies in which the Fund invests generally value securities traded on a national securities exchange or reported on a national market and securities traded in the over-the-counter market at the last reported bid price if held long and the last reported ask price if sold short on the valuation day. Realized gains or losses on sale of investments are determined on an average cost basis. Realized gains and losses and the net change in unrealized gains and losses are included in the statement of operations.

(b) Forward foreign exchange contracts

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro classes of redeemable preference shares to manage its exposure against changes in the US Dollar/Euro exchange rates. Forward foreign exchange contracts are recorded at fair value at the reporting date. The unrealized gain or loss on open forward foreign exchange contracts on each valuation date is the difference between the contract exchange rate and the forward exchange rate at the valuation date, as reported by published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in the statement of assets and liabilities. Realized and unrealized changes in the fair value of the forward foreign exchange contracts are included in the statement of operations in the period in which the change occurs and are attributed entirely to the classes of redeemable preference shares to which the individual contracts relate (see Notes 2(c) and 9(e)).

FMG AFRICA FUND LTD.

Notes to Financial Statements

March 31, 2011

2. Significant accounting policies (continued)

(c) Allocation of profits and losses

The profit or loss of the Fund for each month, excluding realized and unrealized gains and losses on forward foreign exchange contracts used for hedging purposes (Notes 2(b) and 9(e)) and before management and incentive fees, is allocated at the end of each month between the US Dollar and Euro classes of redeemable preference shares (Note 6). The amount is allocated in proportion to the relative net assets of each class of redeemable preference shares on the first day of the month after adding subscriptions and deducting redemptions effective that day. All of the realized and unrealized gains and losses on forward foreign exchange contracts used for hedging are allocated to the appropriate class of redeemable preference shares. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 3).

(d) Foreign currency transactions

Foreign currency investments and balances that are monetary items, predominantly cash and cash equivalents, have been translated into US Dollars at the rate of exchange prevailing on the valuation date. Foreign currency transactions have been translated at the rate in effect at the date of the transaction. Any realized or unrealized exchange adjustments are included in the related caption in the statement of operations.

(e) Interest income and expense

Interest income and expense are recognized on the accrual basis of accounting.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and money market funds held on a short term basis.

(g) Rebate income

The Fund receives rebates as part of the management and incentive fees charged on these investments in other investment companies that are also managed by the Manager (Note 3) or entities related to the Manager or as per the investment agreements entered into by the Fund's Manager. If the amount and timing of such receipts can be estimated, they are accrued; otherwise rebate income is recorded on a cash basis.

(h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

(i) Future accounting standards

The Canadian Accounting Standards Board ("ASB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the ASB issued an exposure draft "*Adoption of IFRSs by Investment Companies*", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "*Investment Companies*" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the ASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18. Management has opted to defer adoption of IFRS and is evaluating the impact of the adoption of IFRS.

FMG AFRICA FUND LTD.

Notes to Financial Statements

March 31, 2011

3. Management, incentive and load fees

(a) Management fees

The Fund pays the Manager a management fee at a rate of 2.0% per annum of the net assets attributable to the Class A Shares of the Fund and 1.5% per annum of the net assets attributable to the Class B Shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2011, the management fee was \$74,725 (2010 - \$128,957), of which \$17,888 (2010 - \$34,020) was payable at March 31, 2011.

(b) Incentive fees

The Class A Shares also incur a quarterly incentive fee equal to 20% of the Net Profits of the Fund, if any, during each calendar quarter (each a "Performance Period"), accrued with respect to each Class A Share of the Fund. The Net Profits are computed in a manner consistent with the principles applicable to the computation of the net assets of the Fund. If a redeemable preference share has a loss chargeable to it during any Performance Period, and during a subsequent Performance Period there is a profit allocable to such Class A Share, there will be no incentive fee payable until the amount of the net loss previously allocated has been recouped. Incentive fees are only paid when the net asset value of the Class A Shares increase above a previously established "high water mark" net asset value for those Class A Shares.

In the event of either a redemption being made at a date other than the end of a Performance Period or the Management Agreement is terminated at any time prior to the last day of a Performance Period, the incentive fee will be computed as though the termination date or Redemption Date, as applicable, was the last day of such Performance Period. Once earned, the incentive fee will be retained by the Manager regardless of the Fund's future results.

The Class B Shares also pay to the Manager an incentive fee of 10% of the net profits attributable to the Class B Shares, calculated monthly and payable quarterly. Net profits are defined as the amount by which cumulative profits attributable to the Class B Shares before the incentive fee but after deduction of all transaction costs, management fees and expenses exceeds a hurdle rate equal to the amount that would have been earned in that fiscal period had the assets of the Fund been invested at the USD 12-month LIBOR rate at the beginning of the fiscal period. Net profits include both realized and unrealized gains less losses on investments. If net profit for a month is negative, it will be carried forward ("carry forward losses"). No incentive fee will be payable until net profits in subsequent month(s) exceed carry forward losses adjusted for redemptions. Investors should note that, the net profit amount, upon which incentive fees are calculated, is not reduced for prior period carry forward losses. Once earned, the incentive fee is retained by the Manager regardless of the Fund's future results.

For the year ended March 31, 2011, the incentive fee was \$11(2010 - \$12,328), of which \$nil (2010 - \$10,417) was payable at March 31, 2011.

The Fund is charged management and incentive fees by the Manager as described above on its net assets and its performance. However, some of the other investment companies and limited partnerships in which the Fund invests are also managed by the Manager or entities related to the Manager. To ensure that the Fund is not double charged for such management and incentive fees, the Manager or its entities related to the Manager rebate to the Fund its proportionate share of such fees. Management and incentive fees rebated to the Fund during the year amounted to \$40,509 (2010 - \$nil) of which \$13,140 (2010 - \$nil) is receivable at March 31, 2011.

FMG AFRICA FUND LTD.

Notes to Financial Statements

March 31, 2011

3. **Management, incentive and load fees** (continued)

(c) Load fees

The Manager may charge load fees of up to 5% of the amount of share capital subscribed. When charged, these load fees will reduce the amount available to shareholders for the purchase of redeemable preference shares in the Fund. For the year ended March 31, 2011, load fees were \$4,083 (2010 - \$nil) and are included in miscellaneous expenses, of which \$nil (2010 - \$1,163) were included within accounts payable and accrued expenses.

One of the directors of the Fund is also a director of the Manager.

4. **Administration fees**

Apex Fund Services Limited (the "Administrator") acts as the administrator, registrar and transfer agent for the Fund. For administration services provided, the Fund pays fees at the higher of \$3,000 per month for net assets up to \$10 million and \$4,000 per month for net assets exceeding \$10 million, or 15 basis points of the Fund's average net assets.

Effective April 1, 2010, the minimum fee was reduced to \$2,500 per month for net assets up to \$10 million and \$3,500 per month for net assets exceeding \$10 million or 15 basis points of the net assets per annum. For the year ended March 31, 2011, Administration fees were \$30,194 (2010 - \$48,110), of which \$nil (2010 - \$12,960) was payable at March 31, 2011.

One of the directors of the Fund is also the Managing Director of the Administrator.

5. **Custodian fees**

Effective August 14, 2009, Credit Suisse AG (the "Custodian") was appointed as custodian to the Fund. Fees for custody services are charged at 7 basis points per annum of the value of the net assets of the Fund under custody subject to an annual minimum of CHF 5,500. In addition, the Custodian is entitled to receive reimbursement for all reasonable disbursements and out-of-pocket expenses incurred by the Custodian.

Effective August 26, 2009 the Fund granted the Custodian a right of lien against all currency accounts and investments in other investment companies held by the Custodian on the Fund's behalf. The purpose of the right of lien is to secure any and all claims of the Custodian against the Fund arising from any current or future agreements or contracts as well as claims on other legal grounds resulting from business operations with the Fund.

Effective January 3, 2011, fees for custody services are charged at 0.075% per annum of the value of the net assets of the Fund under custody up to \$500 million and 0.065% per annum of the value of the net assets of the Fund under custody in excess of \$500 million.

6. **Share capital**

The authorized share capital of the Fund is \$11,000, which is divided into 100 common shares of par value of \$1 each and 10,900,000 redeemable preference shares (the "Shares"), issued in US Dollars and Euro with a par value of \$0.001 each. Redeemable preference shares are issued as Class A and Class A09 shares (collectively, the "Class A Shares") and Class B and Class B09 shares (collectively, the "Class B Shares"). Effective February 2, 2009 Class A09 and Class B09 shares are offered for sale. Effective March 2, 2009, the existing Class A and Class B shares were closed for new subscriptions, except in situations where approved by the Board of Directors and the Manager.

FMG AFRICA FUND LTD.

Notes to Financial Statements

March 31, 2011

6. **Share capital** (continued)

The holder of the common shares is not entitled to receive dividends, may not redeem their holding and is only entitled to be repaid the par value of the common shares upon a winding-up or distribution of capital. The common shares are entitled to one vote per share at a general meeting. All the common shares are owned by the Manager. The redeemable preference shares carry no preferential or pre-emptive rights upon the issue of new shares and have no voting rights at general meetings of the Fund.

Shares may be purchased and redeemed on a Dealing Day, which is generally the first business day of each calendar month. Shares may be purchased at the net asset value per share calculated at the immediately preceding Valuation Day, generally the last business day of the preceding month. Class A and Class B Shares may be redeemed with 45 and 90 days written notice, respectively, at their net asset value per share, subject to certain restrictions as described in the Prospectus.

If on any Valuation Day, any shareholder wishes to redeem Shares totaling more than 5% of the issued capital of the Fund or several shareholders wish to redeem Shares totaling more than 15% of the issued capital of the Fund, the Directors may defer redemption of such Shares, and the calculation of the redemption price, to a subsequent Dealing Day being not later than the fifth Dealing Day following receipt of the application for redemption. In such cases, suspended redemption requests shall be carried out on the basis of the next Net Asset Value.

At March 31, 2010, redemptions payable include \$3,678,877 payable to FMG (EU) Africa Fund. These redemptions were settled by an in-kind transfer of certain of the Fund's investments in other investment companies.

7. **Taxation**

Under current Bermuda laws, the Fund is not required to pay any taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes at least until the year 2016.

It is management's belief that the Fund is not engaged in a United States trade or business and will not be subject to United States income or withholding taxes in respect of the profits and losses of the Fund, other than the 30% withholding tax on U.S. source dividends.

As a result, management has made no provision for income taxes in these financial statements.

8. **Fair value of financial instruments**

The methods used to determine the fair value of investments in other investment companies, exchange traded funds and the unrealized gains and losses on forward foreign exchange contracts are described in Notes 2(a) and 2(b). The fair value of the Fund's other assets and liabilities approximate their carrying amount due to their short term nature.

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8. Fair value of financial instruments (continued)

CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the inputs used as of March 31, 2011 and 2010 in valuing the Fund's investments and derivatives carried at fair value:

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ <u> —</u>	\$ <u>3,429,709</u>	\$ <u> —</u>	\$ <u>3,429,709</u>
Total investments	\$ <u> —</u>	\$ <u>3,429,709</u>	\$ <u> —</u>	\$ <u>3,429,709</u>
Derivative assets		\$ <u>18,936</u>		\$ <u>18,936</u>
<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds	\$ 1,685,250	\$ —	\$ —	\$ 1,685,250
Investments in other investment companies	<u> —</u>	<u>2,651,634</u>	<u>2,648,691</u>	<u>5,300,325</u>
Total investments	\$ <u>1,685,250</u>	\$ <u>2,651,634</u>	\$ <u>2,648,691</u>	\$ <u>6,985,575</u>
Derivative liabilities		\$ <u>(48,658)</u>		\$ <u>(48,658)</u>

During the years ended March 31, 2011 and 2010, the reconciliation of the change in investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Investments in other investment companies <u>2011</u>	Investments in other investment companies <u>2010</u>
Beginning balance	\$ 2,648,691	\$ 2,051,975
Purchases	—	1,859,754
Sales	(2,688,559)	(1,859,754)
Realized gain (loss)	828,805	(1,448,822)
Change in unrealized gains and losses	<u>(788,937)</u>	<u>2,045,538</u>
Ending balance	\$ <u> —</u>	\$ <u>2,648,691</u>
Total change in unrealized appreciation during the year for investments held at March 31	\$ <u> —</u>	\$ <u>788,937</u>

8. Fair value of financial instruments (continued)

Investment in Africa Opportunities Fund SAC Ltd. – Finch Africa Segregated Account (formerly Finch Opportunities Fund SPC Class F Segregated Portfolio Lead Series)

The Fund had an investment in Africa Opportunities Fund SAC Ltd. – Finch Africa Segregated Account (“Africa Opportunities”) with a fair value of \$2,648,691 at March 31, 2010, representing 59.71% of the net asset value of the Fund at that date. For the period from December 2008 to March 2009 there was a suspension in dealing in the shares of the Fund due to adverse market conditions and the illiquidity of the investments held in its portfolio. On April 1, 2009, the holding in Finch Opportunities Fund SPC Class F Segregated Portfolio Lead Series was transferred into a new fund, Africa Opportunities, formed by the same Investment Manager. The fair value of the investment was based on the NAV reported by Africa Opportunities’ administrator.

The valuation carried for the investment in Africa Opportunities at March 31, 2010 was based on estimates made by the Fund’s Manager. There was a significant amount of uncertainty as to the fair value of this investment at that date due to the Fund’s inability to redeem its investment and due to the illiquid nature of the underlying investments held.

On April 1, 2010, the Fund fully redeemed its position in Africa Opportunities for a value of \$2,648,691. The amount to be received was contingent upon the sale of designated illiquid positions held in Africa Opportunities which have been designated to the Fund. As these designated securities were sold, the proceeds were distributed to the Fund. During the year, the Fund received proceeds of \$2,442,023 in relation to the distributions received from Africa Opportunities.

9. Derivative financial instruments and risk management

The Fund’s investment activities expose it to a variety of financial risks. The schedule of investments presents the investments held by the Fund as at the end of the year.

The Fund invests directly or indirectly in companies that are mainly located in Africa. Africa is an emerging market, parts of which are experiencing significant economic growth and change. Consequently, operations in Africa involve risks which do not typically exist in other markets. Such risks include, but are not limited to, the Fund’s investments in companies in Africa which may prove difficult to sell in times of forced liquidity, risks involve estimating the valuation of the underlying businesses, potential adverse changes to the legal, regulatory and taxation environments that could adversely affect the underlying businesses, currency fluctuations, changes in interest rates, institutional, settlement and custodial risks, and other risks generally associated with investing in immature emerging markets.

(a) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund’s investments in other investment companies are not traded in an organized public market. As a result, the Fund may not be able to quickly liquidate its investments in other investment companies at their stated fair value in order to meet its liquidity requirements, including redemption requests from its shareholders. The Fund’s exposure to liquidity risk is managed by the Manager.

The schedule of investments summarizes the redemption frequencies of the Fund’s investments in other investment companies. The information has been obtained by the Manager from the offering memoranda or similar information provided by the managers of the underlying investment companies.

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9. **Derivative financial instruments and risk management** (continued)

(a) Liquidity risk

At March 31, 2011, there were no redemption restrictions on any of the investment companies held by the Fund.

The liabilities of the Fund are comprised of accrued expenses and redemptions payable and these fall due within 3 months of the date of the statement of assets and liabilities.

(b) Interest rate risk

Interest rate risk arises when an entity invests in interest-bearing financial instruments. The Fund does not hold investments which are sensitive to interest rates but is indirectly exposed to the interest rate risk of the investments held by the other investment companies in which the Fund invests. However, the Fund's risk is limited to the net asset value of its investments in those other investment companies.

(c) Credit risk

Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Fund has cash and cash equivalents and derivative financial instruments held in the custody of a major bank with a long term credit rating of Aa2 issued by Moody's. As the Fund invests in other investment companies, the Fund is exposed to the credit risk of each of those underlying investment companies. The maximum amount of credit exposure is represented by the carrying amounts of the assets on the statements of assets and liabilities.

Bankruptcy or insolvency of the Custodian may cause the Fund's rights to be delayed with respect to the cash and cash equivalents and investments held in the custodial relationship. The Manager monitors the credit quality and financial position of the Custodian and should it decline significantly, the Manager will move cash holdings and custodial relationships to another institution.

(d) Market risk

Market risk is the risk that the changes in interest rates, foreign exchange rates or securities prices will affect the fair value of the financial instruments held by the Fund.

The Fund is indirectly exposed to the market risk of the investments held by the other investment companies in which the Fund invests and directly exposed to securities held directly by the Fund. Some of those other investment companies may deal or trade derivative financial instruments as their principal investment activity or use these instruments as part of their investment strategy. This may result in market risk to those other investments companies in excess of the amount invested in these securities. However, the Fund's risk is limited to the net asset value of its investments in those other investment companies, and to the fair value of the investments held directly.

At March 31, 2011, if the price of the investments increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by \$171,485 (2010 - \$349,279); an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable preference shares by an equal but opposite amount.

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9. Derivative financial instruments and risk management (continued)*(e) Currency risk*

The Fund may invest in securities and other investment companies and enter into transactions denominated in currencies other than the US Dollar. Consequently, the Fund is exposed to risks that the exchange rate of the US Dollar relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the US Dollar.

The following table sets out the Fund's total exposure to foreign currency risk split between monetary assets and liabilities, net assets attributable to non-USD denominated share classes, forward foreign exchange contracts and the resulting net exposure to foreign currencies:

	Monetary <u>Assets</u>	Monetary <u>Liabilities</u>	Net assets attributable to non-USD denominated <u>Share Classes</u>	Forward FX <u>Contracts</u>	<u>Net Exposure</u>
March 31, 2011					
EUR	\$ <u>—</u>	\$ <u>—</u>	\$ <u>(1,189,985)</u>	\$ <u>1,266,819</u>	\$ <u>76,834</u>
March 31, 2010					
EUR	\$ <u>—</u>	\$ <u>(657)</u>	\$ <u>(1,519,900)</u>	\$ <u>4,917,736</u>	\$ <u>3,397,179</u>

The amounts in the above table are based on the carrying values of monetary assets and liabilities, net assets attributable to non-USD denominated share classes and the underlying notional amounts of forward foreign exchange contracts.

Forward foreign exchange contracts are entered into by the Fund to hedge exposure to monetary assets and liabilities denominated in currencies other than USD and to hedge the exposure of certain share classes denominated in currencies other than USD.

The gains and losses on forward foreign exchange contracts entered into for the purpose of hedging the exposure to monetary assets and liabilities are recorded in gains and losses on forward foreign exchange contracts in the statement of operations. The gains and losses on contracts entered into for the purpose of hedging the exposure of share classes denominated in currencies other than USD are also recorded in gains and losses on forward foreign exchange contracts in the statement of operations, but are allocated specifically to the non-USD denominated share classes to which the hedging activities, and resultant gains and losses, relate.

At March 31, 2011, had the US Dollar strengthened by 5% in relation to the Euro, there would also be an approximate net impact of \$(3,842) (2010 - \$(169,859)) on the statement of operations and on the net assets attributable to the hedged non-USD denominated share classes. A 5% weakening of the US Dollar against the Euro would have resulted in an approximate equal but opposite effect.

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9. Derivative financial instruments and risk management (continued)*(e) Currency risk (continued)*

Actual results may differ from this sensitivity analysis and the difference could be material to the financial statements.

At March 31, 2011, the Fund had the following open forward foreign exchange contract:

<u>Currency to be bought</u>	<u>Currency to be sold</u>	<u>Contract due date</u>	<u>Fair value</u>
EUR 908,179	USD 1,266,819	April 4, 2011	\$ 18,936
Unrealized gain on open forward foreign exchange contract			\$ 18,936

At March 31, 2010, the Fund had the following open forward foreign exchange contract:

<u>Currency to be bought</u>	<u>Currency to be sold</u>	<u>Contract due date</u>	<u>Fair value</u>
EUR 3,604,321	USD 4,917,736	April 7, 2010	\$ (48,658)
Unrealized loss on open forward foreign exchange contract			\$ (48,658)

(f) Capital management

The Fund's objectives in managing the redeemable preference shares are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions. The Fund's management of the liquidity risk arising from redeemable preference shares is discussed in Note 9(a).

The Fund is not subject to any externally imposed capital requirements.

10. Related transactions

On April 1, 2010, certain investments of the Fund were transferred to FMG EU Africa Fund at their fair value of \$121,070. In exchange for these assets the Fund received shares in FMG EU Africa Fund for the same value.

11. Subsequent events

For the period from April 1, 2011 to October 31, 2011 there have been net redemptions of \$453,196.
