

Interim Consolidated Financial Statements

**African Aura Mining Inc.**

(An exploration stage company)

For The Nine Months Ended September 30, 2010

*(Stated in U.S. Dollars)*

*(Unaudited)*

# African Aura Mining Inc. (An exploration stage company)

## Consolidated Balance Sheet

As at September 30, 2010 (unaudited)

(Stated in U.S. dollars)

	September 30, 2010 \$ (unaudited)	December 31, 2009 \$ (audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	9,980,374	3,695,796
Receivables (Note 15)	4,642,444	4,414,215
Inventories	-	220,826
	<b>14,622,818</b>	<b>8,330,837</b>
<b>Non-current assets</b>		
Investment in associates (Note 5)	14,875,434	7,200,097
Property, plant and equipment (Note 6)	1,429,535	11,499,181
Resource properties (Note 7)	7,587,364	10,059,428
Deferred exploration costs (Note 7)	26,744,823	22,378,268
	<b>50,637,156</b>	<b>51,136,974</b>
<b>Total assets</b>	<b>65,259,974</b>	<b>59,467,811</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,561,078	2,288,447
Convertible debentures (Note 9)	3,635,887	3,399,762
Interest payable on convertible debentures	-	120,924
Embedded derivative	-	125,388
Due to associate (Note 10)	510,031	-
Due to joint venture partner	-	709,753
Due to other related parties (Note 12)	-	169,711
	<b>5,706,996</b>	<b>6,813,985</b>
<b>Non-current liabilities</b>		
Convertible debentures (Note 9)	-	396,078
Asset retirement obligation	-	54,369
<b>Total liabilities</b>	<b>5,706,996</b>	<b>7,264,432</b>
<b>Shareholders' equity</b>		
Share capital (Notes 11a)	67,549,267	50,637,085
Contributed surplus (Notes 11b)	6,998,961	5,292,619
Warrant reserve (Notes 11c)	-	2,808
Equity component of convertible debentures	2,637,802	2,637,802
Accumulated other comprehensive loss	(21,755)	(21,755)
Deficit	(17,611,297)	(11,386,831)
Non-controlling interest	-	5,041,651
<b>Total shareholders' equity</b>	<b>59,552,978</b>	<b>52,203,379</b>
<b>Total liabilities and shareholders' equity</b>	<b>65,259,974</b>	<b>59,467,811</b>

The accompanying notes are an integral part of these financial statements.

Nature of operations and basis of preparation (Notes 1 and 2)

Approved by the Board

**(Signed)** LUIS G. CABRITA DA SILVA, DIRECTOR

Luis G. Cabrita da Silva

**(Signed)** DAVID NETHERWAY, DIRECTOR

David Netherway

# African Aura Mining Inc. (An exploration stage company)

## Consolidated Statement of Income/(Loss) and Comprehensive Income/(Loss)

For the three and nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

	Three months ended September 30, 2010 \$ (unaudited)	Three months ended September 30, 2009 \$ (unaudited)	Nine months ended September 30, 2010 \$ (unaudited)	Nine months ended September 30, 2009 \$ (unaudited)
<b>Revenues</b>				
Net sales	-	359,161	<b>320,367</b>	563,705
<b>Operating expenses</b>				
Depreciation, depletion and amortization (Note 6)	-	780,297	<b>246,145</b>	1,435,533
Other operating expenses	-	589,698	<b>514,861</b>	1,033,211
<b>Gross loss</b>	-	(1,010,834)	<b>(440,639)</b>	(1,905,039)
<b>Expenses</b>				
Administrative and office expenses	<b>141,405</b>	(58,597)	<b>560,992</b>	700,029
Directors fees	<b>55,559</b>	52,804	<b>223,353</b>	321,226
Foreign exchange (gain)/loss	<b>(630,574)</b>	(348,853)	<b>6,100</b>	(341,455)
Management fees	<b>41,232</b>	164,337	<b>170,843</b>	391,723
Interest on convertible debentures (Note 9)	<b>285,343</b>	302,923	<b>870,349</b>	838,879
Professional fees	<b>200,854</b>	(55,816)	<b>733,950</b>	536,070
Stock-based compensation (Note 11b)	-	287,747	<b>1,703,534</b>	722,489
Transfer agent and filing fees	<b>12,331</b>	15,353	<b>111,720</b>	53,337
Project impairment (Note 7)	<b>62,314</b>	6,913,238	<b>2,566,918</b>	7,435,525
Depreciation (Note 6)	<b>106,437</b>	6,354	<b>261,362</b>	21,167
	<b>(274,901)</b>	(7,279,490)	<b>(7,209,121)</b>	(10,678,990)
<b>Other income/(loss)</b>				
Unrealised (loss)/gain on convertible debentures (Note 9)	<b>(164,167)</b>	198,725	<b>4,281</b>	(128,922)
Share in results of associates (Note 5)	<b>(791,005)</b>	40,928	<b>(1,856,956)</b>	166,412
Dilution loss on shares issued by controlled company	-	(24,385)	-	(77,054)
Gain on disposal of subsidiary (Note 4)	-	-	<b>2,913,773</b>	-
Loss on disposal of assets	-	(50)	-	(27,073)
Interest income	<b>39,093</b>	19	<b>52,073</b>	2,676
<b>Loss and comprehensive loss</b>	<b>(1,190,980)</b>	(8,075,087)	<b>(6,536,589)</b>	(12,647,990)
<b>Loss and Total comprehensive loss for the period</b>				
Attributable to:				
Owners of the parent	<b>(1,190,980)</b>	(4,787,763)	<b>(6,224,466)</b>	(8,322,110)
Non-controlling interest	-	(3,287,324)	<b>(312,123)</b>	(4,325,880)
	<b>(1,190,980)</b>	(8,075,087)	<b>(6,536,589)</b>	(12,647,990)
Basic and diluted loss per share	<b>(0.017)</b>	(0.121)	<b>(0.098)</b>	(0.209)
Weighted average number of shares outstanding	<b>70,283,226</b>	39,726,352	<b>63,310,925</b>	39,726,352

The accompanying notes are an integral part of these financial statements.

# African Aura Mining Inc. (An exploration stage company)

## Consolidated Statements of Cash Flow

For the three and nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

	<b>Three months ended September 30, 2010 \$ (unaudited)</b>	Three months ended September 30, 2009 \$ (unaudited)	<b>Nine months ended September 30, 2010 \$ (unaudited)</b>	Nine months ended September 30, 2009 \$ (unaudited)
<b>Operating activities</b>				
Loss for the period	<b>(1,190,980)</b>	(8,075,087)	<b>(6,536,589)</b>	(12,647,990)
Items not involving cash:				
Gain on disposal of subsidiary	-	-	<b>(2,913,773)</b>	-
Share in results of associate	<b>791,005</b>	(40,928)	<b>1,856,956</b>	(166,412)
Dilution loss on shares issued by controlled company	-	24,385	-	77,054
Stock-based compensation	-	287,747	<b>1,703,534</b>	722,489
Accretion of convertible debentures	<b>154,604</b>	314,568	<b>576,671</b>	688,613
Unrealised foreign exchange loss/(gain) on convertible debentures	<b>164,167</b>	(198,725)	<b>(4,281)</b>	128,922
Unrealised foreign exchange gain	<b>(228,997)</b>	-	<b>(261,505)</b>	-
Project impairment	<b>62,313</b>	6,913,238	<b>2,566,918</b>	7,435,525
Depreciation of property, plant and equipment	<b>106,437</b>	786,672	<b>507,507</b>	1,456,721
Writeback of amounts due to associate	<b>(203,506)</b>	-	<b>(203,506)</b>	-
Loss on sale of fixed assets	-	50	-	27,073
Changes in working capital:				
Receivables	<b>(231,033)</b>	(105,873)	<b>(256,451)</b>	(30,651)
Inventories	-	(198,118)	<b>181,363</b>	(501,341)
Accounts payable and accrued liabilities	<b>334,592</b>	(556,706)	<b>(237,093)</b>	248,223
Due to associate	<b>(103,124)</b>	-	<b>465,447</b>	-
Due to other related parties	-	25,269	<b>59,935</b>	88,100
	<b>(344,522)</b>	(823,508)	<b>(2,494,867)</b>	(2,473,674)
<b>Investing activities</b>				
Disposal of subsidiary (Note 4)	-	-	<b>(69,382)</b>	-
Investment in associate	<b>(61,099)</b>	-	<b>(61,099)</b>	-
Deferred exploration costs (Note 7)	<b>(2,674,102)</b>	(577,538)	<b>(7,281,149)</b>	(3,268,132)
Purchase of property, plant and equipment	<b>(631,317)</b>	-	<b>(833,799)</b>	(245,076)
Disposal of property, plant and equipment	-	20,103	-	-
	<b>(3,366,518)</b>	(557,435)	<b>(8,245,428)</b>	(3,513,208)
<b>Financing activities</b>				
Issuance of share capital (net of costs)	-	(636,137)	<b>16,912,182</b>	(636,137)
Proceeds of convertible debenture in subsidiary	-	478,170	-	853,161
Proceeds from issue of shares in subsidiary	-	(160,747)	-	-
	-	(318,714)	<b>16,912,182</b>	217,024
Impact of foreign exchange on cash balance	<b>88,281</b>	-	<b>112,692</b>	-
<b>Net cash (outflow)/inflow</b>	<b>(3,622,759)</b>	(1,699,657)	<b>6,284,578</b>	(5,769,858)
<b>Cash, Beginning of the period</b>	<b>13,603,133</b>	4,807,705	<b>3,695,796</b>	8,877,906
<b>Cash, End of the period</b>	<b>9,980,374</b>	3,108,048	<b>9,980,374</b>	3,108,048

Significant non-cash transactions relating to de-recognition of Stellar, recognition of amount due to associates on the de-recognition of Stellar, conversion of convertible debentures of Stellar Diamonds Limited ("Stellar") of \$274,991 and amounts due to Stellar directors (due to other related parties) of \$208,676 to Stellar shares are disclosed in notes 4, 9 and 12. The accompanying notes are an integral part of these financial statements.

# African Aura Mining Inc. (An exploration stage company)

## Consolidated Statement of Shareholders' Equity

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

	Common shares		Contributed surplus	Warrant reserve	Equity component of convertible debentures	Deficit accumulated in the exploration stage	Accumulated other comprehensive loss	Non-controlling interest	Total shareholders' equity
	Number	Amount							
		\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance at January 1, 2009</b>	<b>39,726,376</b>	<b>37,963,124</b>	<b>4,488,976</b>	<b>548,000</b>	<b>2,637,802</b>	<b>(4,098,885)</b>	<b>(21,755)</b>	<b>9,011,297</b>	<b>50,528,559</b>
Loss for the year	-	-	-	-	-	(7,739,218)	-	(4,543,204)	(12,282,422)
Expired warrants	-	-	-	(548,000)	-	548,000	-	-	-
Dilution loss	-	-	-	-	-	(96,728)	-	96,728	-
Total comprehensive loss	-	-	-	(548,000)	-	(7,287,946)	-	(4,446,476)	(12,282,422)
Issued on acquisition	13,158,080	12,691,148	524,518	2,808	-	-	-	-	13,218,474
Shares issued	-	-	-	-	-	-	-	321,213	321,213
Share issuance costs	-	(17,187)	-	-	-	-	-	-	(17,187)
Stock-based compensation	-	-	434,742	-	-	-	-	-	434,742
Non-controlling interest in stock-based compensation	-	-	(155,617)	-	-	-	-	155,617	-
<b>Balance at December 31, 2009</b>	<b>52,884,456</b>	<b>50,637,085</b>	<b>5,292,619</b>	<b>2,808</b>	<b>2,637,802</b>	<b>(11,386,831)</b>	<b>(21,755)</b>	<b>5,041,651</b>	<b>52,203,379</b>
Income/(Loss) and Total comprehensive income/(loss) for the period	-	-	-	-	-	(6,224,466)	-	(312,123)	(6,536,589)
Shares issued (Note 11a)	17,398,770	17,411,030	-	-	-	-	-	-	17,411,030
Share issuance costs (Note 11a)	-	(498,848)	-	-	-	-	-	-	(498,848)
Shares issued to non-controlling interest	-	-	-	-	-	-	-	524,917	524,917
Disposal of subsidiary (Note 4)	-	-	-	-	-	-	-	(5,254,445)	(5,254,445)
Stock-based compensation (Note 11b)	-	-	1,703,534	-	-	-	-	-	1,703,534
Expired warrants (Note 11c)	-	-	2,808	(2,808)	-	-	-	-	-
<b>Balance at September 30, 2010</b>	<b>70,283,226</b>	<b>67,549,267</b>	<b>6,998,961</b>	<b>-</b>	<b>2,637,802</b>	<b>(17,611,297)</b>	<b>(21,755)</b>	<b>-</b>	<b>59,552,978</b>

The accompanying notes are an integral part of these financial statements.

# **African Aura Mining Inc.** (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### **1. Description of business and nature of operations**

African Aura Mining Inc. ("African Aura" or "the Company") commenced operations on July 10, 1996 and is engaged in the acquisition, exploration and development of gold and iron ore properties. The Company changed its name from Mano River Resources Inc. to African Aura on October 13, 2009, the day it completed its acquisition of African Aura Resources Limited ("AAR"). As discussed in note 4, Stellar Diamonds Limited was deemed partially disposed on February 22, 2010.

### **2. Basis of preparation**

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with the accounting principles that have been applied in the consolidated financial statements for the year ended December 31, 2009. The unaudited interim consolidated financial statements do not include disclosures required by generally accepted accounting principles in Canada ("Canadian GAAP") for annual consolidated financial statements and accordingly they should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2009.

The Company has prepared these unaudited interim consolidated financial statements on a going concern basis which assumes that the Company will be able to realise assets and discharge liabilities in the normal course of business. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional finance in the future. If the Company cannot obtain additional finance in the future it may be forced to realise its assets at amounts significantly lower than the current carrying value.

At September 30, 2010 the Company had cash and cash equivalents of approximately \$10 million. The cash balance at the end of September will be improved following the decision of our convertible debenture holders to convert their debentures into the Company's common shares, avoiding a repayment of \$3.6 million (£2.3 million) by the Company, the repayment to the Company in October of \$4.3 million deferred consideration receivable from OAO Severstal Resources ("Severstal") at September 30, 2010 and the gross proceeds of approximately £20.3 million (approximately \$32 million) from the fully underwritten placing on October 26, 2010 as discussed in note 15.

The directors believe that the current funds will be sufficient to progress the Company's key projects and to finance general overhead costs for the foreseeable future.

Uncertainty also exists with respect to the recoverability of the carrying value of certain resource properties. The ability of the Company to realise its investment in resource properties is contingent upon resolution of the uncertainties and continuing confirmation of the Company's title to the resource properties.

The United States dollar has been identified as the Company's currency of measurement and is used for external reporting purposes.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

# **African Aura Mining Inc.** (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### **3. Accounting standards and recent pronouncements**

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. The conversion to IFRS will be required for the Company, for interim and annual financial statements beginning on January 1, 2011.

The Company is evaluating the impact of the adoption of IFRS on its consolidated financial statements. In the transition to IFRS, the Company must apply "IFRS 1 - First Time Adoption of IFRS" which sets out the rules for first time adoption. This requires that an entity apply IFRS to its opening IFRS balance sheet as at January 1, 2010 (i.e. the balance sheet prepared at the beginning of the earliest comparative period presented in the entity's first IFRS financial statements).

On transition, management must apply the mandatory exemptions and make the determination as to which elective exemptions will be made under IFRS 1. Management is currently preparing its timetable for transition and will undertake a high level analysis of the financial statement areas to determine which elections will be taken. After this high level analysis is completed the Company will be in a better position to assess the impact IFRS will have on the financial statements.

For the year ended December 31, 2009, the Company early adopted Section 1582 Business Combinations, Section 1601 Consolidated Financial Statements and Section 1602 Non-controlling interests in advance of their effective date of January 1, 2011. The adoption of these sections resulted in the presentation of non-controlling interest as part of shareholders' equity on the balance sheet, the change in presentation of the statement of comprehensive income and the recognition of dilution gains and losses as capital transactions recognised directly in equity.

### **4. Deemed disposal of Stellar Diamonds Limited**

On February 22, 2010, certain convertible debentures issued by Stellar Diamonds Limited ("Stellar"), previously a 58.34% subsidiary of the Company at December 31, 2009, unpaid Stellar directors' fees and the 2009 management fee charged by the Company to Stellar were converted into 1,123,377 new Stellar shares.

On the same date, Stellar completed its reverse takeover of West African Diamonds plc ("WAD"). Simultaneously, WAD changed its name to Stellar Diamonds plc, raised £5 million new funds (the "Placing") and undertook a 5 for 1 share consolidation of the enlarged share capital of the group. Stellar Diamonds plc commenced trading on AIM on February 22, 2010. Consequently, the Company's interest in Stellar Diamonds plc was diluted to 31.8%.

The Placing comprised the issuance of 25,000,000 new ordinary shares at 20p per share of which the Company subscribed 197,500 shares amounting to \$61,099.

The dilution of the Company's interest in Stellar from 58.34% to 31.8% represents a deemed disposal of a subsidiary. Accordingly, African Aura has:

- derecognized the assets and liabilities of and non-controlling interest in Stellar at their carrying amounts on February 22, 2010;
- recognized as consideration on the deemed disposal the investment in associate retained in Stellar at its fair value of \$9.5 million on February 22, 2010. The fair value of investment in associate is calculated as 30,595,270 shares at 20p per share converted to 31 cents per share (at a rate of 1.54782) on February 22, 2010; and
- recognized the difference of the fair value of the consideration received and carrying amounts of the net assets of Stellar at February 22, 2010 as gain on disposal attributable to the parent.

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 4. Deemed disposal of Stellar Diamonds Limited (continued)

African Aura retains significant influence in Stellar Diamonds plc through its shareholding and board position. As a result Stellar Diamonds plc is not disclosed as a discontinued operation.

The following table summarizes the carrying values of the assets and liabilities disposed on February 22, 2010 and the gain on disposal of Stellar.

	\$
<b>Current assets</b>	
Cash and cash equivalents	69,382
Receivables	28,223
Due from African Aura Mining Inc.	248,090
Inventories	39,463
	<b>385,158</b>
<b>Non-current assets</b>	
Property, plant and equipment (Note 6)	10,388,492
Deferred exploration costs (Note 7)	2,975,998
	<b>13,364,490</b>
<b>Total assets disposed</b>	<b>13,749,648</b>
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	490,276
Interest payable on convertible debenture (Note 9)	51,336
Embedded derivative (Note 9)	125,388
Due to related parties	20,970
Due to joint venture partners	709,753
	<b>(1,397,723)</b>
<b>Non-current liabilities</b>	
Convertible debenture (Note 9)	485,690
Asset retirement obligation	54,369
	<b>(540,059)</b>
<b>Total liabilities derecognized</b>	<b>(1,937,782)</b>
<b>Minority interest derecognized</b>	<b>(5,254,445)</b>
<b>Net assets and non-controlling interest disposed</b>	<b>6,557,421</b>
<b>Total consideration and on-going investment in associate</b>	<b>9,471,194</b>
<b>Net assets and non-controlling interest disposed</b>	<b>6,557,421</b>
<b>Gain on disposal of Stellar</b>	<b>2,913,773</b>

The net cash outflow as a result of the disposal is \$69,382.

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 5. Investments in associates

The investment in associate at January 1, 2010 relates to the Company's investment in Severstal Liberia Iron Ore Ltd (SLIO). As discussed in Note 4, the Company's share in Stellar Diamonds plc (Stellar) was diluted to 31.8% on February 22, 2010, the date Stellar completed its reverse acquisition and as a result, Stellar is now accounted for as an associate. The Group's share in the result of associates relating to share in post-acquisition losses is recorded in the consolidated statement of income/(loss). The movement in the investments in associates is detailed below:

	SLIO	Stellar	Total
	\$	\$	\$
At January 1, 2010	7,200,097	-	7,200,097
Investment in Stellar (Note 4)	-	9,471,194	9,471,194
Additional investment	-	61,099	61,099
Share in result of associates	(51,966)	(1,804,990)	(1,856,956)
At September 30, 2010	7,148,131	7,727,303	14,875,434

At September 30, 2010 the Company holds 38.5% of SLIO and 30.4% of Stellar Diamonds plc.

### 6. Property, plant and equipment

	Mining assets	Machinery and equipment	Total
	\$	\$	\$
<b>Cost</b>			
At January 1, 2010	10,692,283	2,388,232	13,080,515
Additions	-	833,799	833,799
Disposal of subsidiary (Note 4)	(10,692,283)	(1,423,221)	(12,115,504)
At September 30, 2010	-	1,798,810	1,798,810
<b>Depreciation</b>			
At January 1, 2010	741,362	839,972	1,581,334
Charge for the period	246,145	261,362	507,507
Foreign exchange	-	7,446	7,446
Disposal of subsidiary (Note 4)	(987,507)	(739,505)	(1,727,012)
At September 30, 2010	-	369,276	369,276
<b>Net book value</b>			
At September 30, 2010	-	1,429,535	1,429,535
At January 1, 2010	9,950,921	1,548,260	11,499,181

# **African Aura Mining Inc.** (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### **7. Resource properties and deferred exploration costs**

	January 1, 2010 \$	Impairment \$	September 30, 2010 \$
<b>Resource properties:</b>			
<b>Liberia</b>			
Bea	210,000	-	<b>210,000</b>
North Bea	2,457,767	(2,457,767)	-
	<u>2,667,767</u>	<u>(2,457,767)</u>	<b><u>210,000</u></b>
<b>Cameroon</b>			
Batouri	4,091,266	-	<b>4,091,266</b>
Nkout	1,159,105	-	<b>1,159,105</b>
Ntem	629,073	-	<b>629,073</b>
Akonolinga	480,920	-	<b>480,920</b>
Ekomedion	14,297	(14,297)	-
	<u>6,374,661</u>	<u>(14,297)</u>	<b><u>6,360,364</u></b>
<b>Sierra Leone</b>			
Sonfon	1,017,000	-	<b>1,017,000</b>
	<u>1,017,000</u>	<u>-</u>	<b><u>1,017,000</u></b>
	<u>10,059,428</u>	<u>(2,472,064)</u>	<b><u>7,587,364</u></b>

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 7. Resource properties and deferred exploration costs (continued)

	January 1, 2010 \$	Additions \$	Foreign exchange gain \$	Disposal of subsidiary (Note 4) \$	Impairment \$	September 30, 2010 \$
<b>Deferred exploration costs:</b>						
<b>Liberia</b>						
New Liberty	16,996,448	4,069,832	-	-	-	<b>21,066,280</b>
Weaju	757,598	308,950	-	-	-	<b>1,066,548</b>
Gondoja	34,348	-	-	-	-	<b>34,348</b>
North Bea	39,653	7,184	-	-	(46,837)	-
Silver Hills	3,009	35,843	-	-	-	<b>38,852</b>
Ndablama	-	81,240	-	-	-	<b>81,240</b>
	<u>17,831,056</u>	<u>4,503,049</u>	<u>-</u>	<u>-</u>	<u>(46,837)</u>	<u><b>22,287,268</b></u>
<b>Cameroon</b>						
Batouri	330,158	56,524	3,177	-	-	<b>389,859</b>
Ntem	8,280	165,290	9,291	-	-	<b>182,861</b>
Akonolinga	906	82,449	4,634	-	-	<b>87,989</b>
Nkout	4,339	2,384,847	134,055	-	-	<b>2,523,241</b>
Ngoa	-	68,330	3,841	-	-	<b>72,171</b>
Ekomedion	24,322	22,434	1,261	-	(48,017)	-
	<u>368,005</u>	<u>2,779,874</u>	<u>156,259</u>	<u>-</u>	<u>(48,017)</u>	<u><b>3,256,121</b></u>
<b>Sierra Leone</b>						
Kono	1,919,194	7,302	-	(1,926,496)	-	-
Sonfon	1,202,093	(659)	-	-	-	<b>1,201,434</b>
Tongo	702,360	660	-	(703,020)	-	-
	<u>3,823,647</u>	<u>7,303</u>	<u>-</u>	<u>(2,629,516)</u>	<u>-</u>	<u><b>1,201,434</b></u>
<b>Guinea</b>						
Bouro	180,995	-	-	(180,995)	-	-
Droujba and ex De Beers	159,289	-	-	(159,289)	-	-
Ouria	15,276	(9,078)	-	(6,198)	-	-
	<u>355,560</u>	<u>(9,078)</u>	<u>-</u>	<u>(346,482)</u>	<u>-</u>	<u>-</u>
	<b>22,378,268</b>	<b>7,281,148</b>	<b>156,259</b>	<b>(2,975,998)</b>	<b>(94,854)</b>	<b>26,744,823</b>

The resource properties and deferred exploration costs relating to North Bea amounting to \$2,504,604 was impaired in Q2 2010 and \$62,314, in relation to Ekomedion was impaired in Q3 2010. In both cases the licences were not renewed as the projects were not considered to have the economic potential to warrant further exploration.

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 7. Resource properties and deferred exploration costs (continued)

	Three months ended September 30, 2010 \$	Three months ended September 30, 2009 \$	Nine months ended September 30, 2010 \$	Nine months ended September 30, 2009 \$
<b>Deferred exploration costs</b>				
Assays and geochemical	193,681	4,491	314,553	11,141
Communications incl. Equipment	33,097	5,768	55,164	18,110
Community relations	43,175	69,552	241,581	123,631
Consultants and professional fees	182,132	22,248	353,531	512,995
Data, images, reports and maps	-	5,611	-	9,511
Drilling	799,575	-	2,726,547	-
Geophysical	61,930	-	431,481	-
Infrastructure incl. roads and bridges	316,901	77,825	635,144	194,366
Licenses and permit fees	45,656	28,956	67,787	38,750
Project/field office costs incl. field equipment	243,516	30,022	694,722	405,649
Salaries and wages	531,997	244,560	1,178,122	761,204
Subsistence	76,440	3,871	154,828	18,129
Transportation incl. vehicles	146,002	(39,145)	427,688	257,025
Kono (Petra) joint venture	-	90,494	-	908,238
Net expenditure during the year	2,674,102	544,253	7,281,148	3,258,749
Impairment during the period	(48,017)	(7,010,915)	(94,854)	(7,533,202)
Transfer of Mandala costs to Property, plant and equipment	-	-	-	(2,570,252)
Disposal of Stellar Diamonds	-	-	(2,975,998)	-
Foreign exchange gain	156,259	-	156,259	-
Balance, Beginning of the period	23,962,479	26,938,399	22,378,268	27,316,442
<b>Balance, End of the period</b>	<b>26,744,823</b>	<b>20,471,737</b>	<b>26,744,823</b>	<b>20,471,737</b>

### 8. Joint ventures and Project agreements

Following the deemed disposal of Stellar Diamonds Limited as set out in Note 4, the diamond projects are no longer controlled by Company.

The Company has a joint venture agreement with Golden Star Resources ("GSR"). GSR has met its expenditure commitments under the agreement and as a result its beneficial interest in the project has increased to 51%. Following this milestone, the Company and GSR updated the terms of their joint venture agreement in June 2010. Under this agreement, African Aura must elect no later than January 31, 2011 whether it will contribute its 49% of the 2010 exploration expenditure incurred and retain its 49% interest. If it elects not to contribute it will dilute its interest in the project. The GSR 2010 exploration budget for Sonfon is \$1.4 million. This has seen an IP survey concluded and a 3,000m core drilling programme completed. The results of this programme are now awaited.

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 9. Convertible debentures

Below is a summary of the debt element of the convertible debentures:

	<b>September 30, 2010</b>	December 31, 2009
	\$	\$
Opening balance	<b>3,795,840</b>	2,048,638
Fair value accretion	<b>605,009</b>	781,212
Unrealised foreign currency exchange (gain)/loss	<b>(4,281)</b>	205,309
Net proceeds from issue of Stellar convertible loan notes	-	727,773
Conversion of Stellar convertible debentures to equity	<b>(274,991)</b>	-
Disposal of Stellar	<b>(485,690)</b>	-
Fair value accretion on Stellar convertible loan notes	-	32,908
Closing balance	<b>3,635,887</b>	3,795,840
Included in current liabilities	<b>3,635,887</b>	3,399,762
Included in non-current liabilities	-	396,078
	<b>3,635,887</b>	3,795,840

On February 22, 2010, certain convertible debentures issued by Stellar on May 20, 2009 amounting to \$474,991 (including \$200,000 held by the Company) and accrued interest of \$71,250 were converted into Stellar shares. The remaining convertible debentures issued by Stellar of \$485,690, accrued interest of \$51,336 and related embedded derivative of \$125,388 were derecognized on the deemed disposal of Stellar as discussed in Note 4.

During the period ended September 30, 2010 the total interest expense charged to the consolidated statement of income/(loss) for the above convertible debentures is \$870,349 (2009: \$838,879) including the accretion of the loan to its future value. Included in the consolidated statement of income/(loss) for the period ended September 30, 2010 is \$4,281 as an unrealised foreign currency exchange rate gain (2009: loss of \$128,922), as the debentures are denominated in sterling.

### 10. Due to associate

	<b>September 30, 2010</b>	December 31, 2009
	\$	\$
Stellar Diamonds plc	<b>510,031</b>	-
	<b>510,031</b>	-

The amount due to Stellar was recognised on disposal of Stellar as a subsidiary, this was previously eliminated on consolidation. It has been reduced by \$203,506 during the three months ended 30 September 2010 following an independent review of the transactions the majority of which are the result of the 2007 reorganisation of the diamond interests of the Company and the resulting launch of Stellar Diamonds Limited.

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 11. Share capital

#### (a) Common stock

On April 20, 2010, the Company announced that it has conducted a private placing raising gross proceeds of £11.3 million (\$17.4 million at the exchange rate of 1.54) consisting of 17,398,770 new common shares of no par value in the capital of the Company (the "Placing Shares") at 65 pence (\$1.0007) per share (the "Placing price") (the "Placing"). The direct costs to issue the Placing Shares which have been charged to share capital amounted to \$498,848.

Participation by Directors of the Company in the Placing totalled over £450,000.

The Placing Price represents a discount of 3.7% to the closing middle market price of 67.5 pence per common share on AIM on April 19, 2010 (the last trading day prior to the issue of the announcement). The Placing Shares represented approximately 24.8% of the Company's enlarged issued share capital immediately following admission.

	Shares	Amount \$
Balance at January 1, 2009	39,726,376	37,963,124
Shares issued on acquisition of African Aura Resources Limited	13,158,080	12,691,148
Share issuance costs related to the acquisition of African Aura Resources Limited	-	(17,187)
Balance at December 31, 2009	52,884,456	50,637,085
Shares issued during the period	17,398,770	17,411,030
Share issuance costs	-	(498,848)
Balance at September 30, 2010	70,283,226	67,549,267

#### (b) Stock options in the Company

A summary of the status of the Company's Stock Option Plan as at September 30, 2010 and December 31, 2009 and changes during the nine month period and the year, respectively, are as follows:

	September 30, 2010		December 31, 2009	
	Number of options	Weighted average exercise price per share Cdn\$	Number of options	Weighted average exercise price per share Cdn\$
Beginning of the period	3,359,806	1.42	2,255,000	1.68
Options granted on acquisition of AAR	-	-	794,806	1.30
Other options granted	2,458,750	1.24	650,000	0.80
Options expired	(327,500)	-	(340,000)	1.92
End of the period	5,491,056	1.32	3,359,806	1.42

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 11. Share capital (continued)

On January 8, 2010, the Company granted incentive stock options to directors and employees to purchase up to an aggregate of 1,208,750 common shares of no par value at an exercise price of Cdn\$1.22 per share, exercisable immediately and for a period of five years. These options have resulted in a charge to the consolidated statement of income/(loss) of \$846,481.

On May 13, 2010, the Company granted incentive stock options to directors and employees to purchase up to an aggregate of 1,250,000 common shares of no par value at an exercise price of Cdn\$1.25 per share, exercisable immediately and for a period of five years. These options have resulted in a charge to the consolidated statement of income/(loss) of \$857,053.

The options granted during the period have resulted in a charge to the consolidated statement of income/(loss) of \$1,703,534 based on the Black-Scholes option pricing model and the following assumptions: nil dividend yield, a weighted average expected volatility of the Company's share price of 69.1% (January 8, 2010) and 63.6% (May 13, 2010) based on the weighted average volatility on AIM, a weighted average annual risk free rate of 3.05% and an expected life of five years.

Below is the summary of the outstanding stock options:

	<b>September 30, 2010</b>		December 31, 2009	
<b>Expiry date</b>	<b>Exercise price per share Cdn \$</b>	<b>Number of stock options outstanding</b>	Exercise price per share Cdn \$	Number of stock options outstanding
July 25, 2010	-	-	1.76	327,500
July 31, 2011	<b>1.84</b>	<b>344,375</b>	1.84	344,375
March 16, 2012	<b>1.84</b>	<b>75,000</b>	1.84	75,000
May 20, 2012	<b>1.84</b>	<b>37,500</b>	1.84	37,500
January 17, 2013	<b>1.60</b>	<b>1,130,625</b>	1.60	1,130,625
July 1, 2013	<b>2.80</b>	<b>63,780</b>	2.80	63,780
January 19, 2014	<b>0.80</b>	<b>650,000</b>	0.80	650,000
June 6, 2015	<b>0.41</b>	<b>181,530</b>	0.41	181,530
December 1, 2015	<b>0.84</b>	<b>235,498</b>	0.84	235,498
December 1, 2015	<b>1.25</b>	<b>98,124</b>	1.25	98,124
December 1, 2015	<b>1.67</b>	<b>29,437</b>	1.67	29,437
January 1, 2017	<b>1.43</b>	<b>19,625</b>	1.43	19,625
June 28, 2017	<b>2.29</b>	<b>166,812</b>	1.43	166,812
January 8, 2015	<b>1.22</b>	<b>1,208,750</b>	-	-
May 13, 2015	<b>1.25</b>	<b>1,250,000</b>	-	-
		<b>5,491,056</b>		<b>3,359,806</b>

#### (c) **Share purchase warrants**

The Company has no share purchase warrants outstanding.

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 12. Related party transactions

The following table summarises the Company's related party transactions:

	<b>Three months ended September 30, 2010</b>	Three months ended September 30, 2009	<b>Nine months ended September 30, 2010</b>	Nine months ended September 30, 2009
	\$	\$	\$	\$
Incurring management service fee with a company related by a director in common	-	14,695	-	74,003
Incurring management fees by directors	<b>50,681</b>	184,198	<b>251,395</b>	451,309
Incurring directors fees	<b>55,559</b>	52,804	<b>223,353</b>	321,226
Incurring geologist fee with a company related by a common director	<b>12,399</b>	-	<b>23,947</b>	-
	<b>118,639</b>	251,697	<b>498,695</b>	846,538

These transactions are in the normal course of business and are repayable on demand. A portion of the management fees have been capitalised within the deferred exploration costs. No consultancy payments were made during the quarter.

During the period, the Company, in the ordinary course of business, entered into various transactions with its associates. These transactions occurred under terms and conditions that are no less favourable than those arranged with third parties.

	<b>Three months ended September 30, 2010</b>	Three months ended September 30, 2009	<b>Nine months ended September 30, 2010</b>	Nine months ended September 30, 2009
	\$	\$	\$	\$
Stellar				
- Management fees charged	<b>27,192</b>	-	<b>67,980</b>	-
- Receipt of bridging loans receivable	-	-	<b>400,000</b>	-
SLIO				
- Management fees charged	<b>8,238</b>	-	<b>25,285</b>	-

The amounts due to related entities at September 30, 2010 are as follows:

	<b>September 30, 2010</b>	December 31, 2009
	\$	\$
Directors' companies	-	9,499
Various directors	-	160,212
	-	169,711

These balances are payable on demand and have arisen from the provision of services rendered as set out above.

Amount due to/from related parties are settled through the course of the operating working capital cycle. Due to the short term nature of the amounts outstanding the fair value approximates to the carrying amount.

# **African Aura Mining Inc.** (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

*(Stated in U.S. dollars)*

### **13. Capital risk management**

The Company's objectives when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to ensure sufficient resources are available to meet day to day operating requirements.

The Company's Board of Directors takes full responsibility for managing the Company's capital and does so through board meetings, review of financial information, and regular communication with Officers and senior management.

In order to maximise ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in deposits with high credit worthy financial institutions with short term maturity.

The Company expects its current capital resources will be sufficient to carry out its plans and operations through its current operating period.

The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital risk management as at September 30, 2010.

# African Aura Mining Inc. (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### 14. Financial instruments and financial risk management

The Company's financial assets and liabilities are cash, accounts receivable, accounts payable and accrued liabilities, due to associate, due to/from joint venture partner, due to related parties, convertible debentures and embedded derivatives. The fair values of these financial instruments are estimated to approximate their carrying values due to their immediate or short-term nature.

The carrying amounts for the financial instruments are as follows:

	September 30, 2010	December 31, 2009
	\$	\$
<b>Financial assets:</b>		
<i>Loans and receivables, measured at amortised cost</i>		
Cash	9,980,374	3,695,796
Accounts receivable	4,642,444	4,414,215
	<u>14,622,818</u>	<u>8,110,011</u>
<b>Financial liabilities:</b>		
<i>Other liabilities, measured at amortised cost</i>		
Accounts payable and accrued liabilities	1,501,371	2,119,693
Convertible debentures	3,635,887	3,795,840
Interest payable on convertible debentures	-	120,924
Due to associate	510,031	-
Due to related parties	-	169,711
Due to joint venture partner	-	709,753
	<u>5,647,289</u>	<u>6,915,921</u>
<i>Other liabilities, measured at fair value through profit and loss</i>		
Embedded derivative	-	125,388

In the normal course of its operations, the Company is exposed to currency, interest rate, liquidity and credit risks.

#### **Foreign currency risk**

In the normal course of business, the Company enters into transactions denominated in foreign currencies (primarily Pound Sterling, Canadian Dollars, Communauté Financière Africaine Franc and Euros). In general, the Company does not enter into derivatives to manage these currency risks and as a result, the Company is subject to exposure from fluctuations in foreign currency exchange rates. The costs presented in the consolidated statement of comprehensive (loss)/income and the carrying value of assets and liabilities may differ from if we entered into derivatives.

#### **Interest rate and liquidity risk**

Fluctuations in interest rates impact on the value of short term cash investments and interest payable on financing activities (including long term loans), giving rise to interest rate risk. The Company has historically been able to actively source financing through public offerings, corporate dealings or issuing fixed rate convertible debentures. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks. In the ordinary course of business, the Company is required to fund working capital and capital expenditure requirements. The Company typically holds financial assets with a maturity of less than 30 days to ensure adequate liquidity and flexibility, thus all financial liabilities are met as they become due.

# **African Aura Mining Inc.** (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### **14. Financial instruments and financial risk management (continued)**

Due to the short maturity of the Company's financial assets, and the current low level of interest rates, if interest rates were to double, it would have an insignificant impact on the Company's financial performance.

#### ***Credit risk***

The Company's maximum credit risk exposure is in connection with the cash and cash equivalents held with financial institutions and the amount receivable from Severstal which has been subsequently collected in October 2010 (see note 15). The Company manages its risk by holding surplus funds in high credit worthy financial institutions and maintains minimum balances with financial institutions in remote locations.

### **15. Subsequent events**

#### *Conversion of convertible debentures into ordinary shares*

Pursuant to the terms of its convertible debentures dated 27 September 2007, which matured on 28 September 2010 (see note 9), the holders of the £2.3 million (\$3.6 million) convertible debentures have elected to convert the convertible debentures into 2,053,569 common shares at a price of £1.12 per share. The shares were allotted and issued on 6 October 2010. Following admission, the total issued share capital of the Company is 72,336,795 common shares.

#### *Investment in associate*

On 11 October 2010, Stellar Diamonds plc issued 38,000,000 new shares raising gross proceeds of £1.9 million. The Company did not participate in this fund raising and as a result, its interest in Stellar Diamonds plc has decreased to 22.1%.

#### *Receipt of deferred consideration from Severstal*

On 14 October 2010, the Company received \$4.2 million from Lybica Holding B.V., an indirect wholly-owned subsidiary of OAO Severstal Resources ("Severstal"), pursuant to the terms of its agreement with Severstal of 23 May 2008. The payment represents the deferred consideration, due for payment in December 2010, for the shares acquired by Severstal in the Putu project joint venture company, Severstal Liberia Iron Ore Limited. The deferred consideration is included in accounts receivable under current assets.

#### *Issuance of share options*

On 1 November 2010, the Company issued 240,000 share options to a new director and a new employee exercisable at Cdn\$2.26 per share exercisable immediately and for a period of five years from the date of issuance.

# **African Aura Mining Inc.** (An exploration stage company)

## Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2010 (unaudited)

(Stated in U.S. dollars)

### **15. Subsequent events (continued)**

#### *Proposed restructuring of the Company*

On 8 November 2010, the Company announced that its Board of Directors has determined, in principle, to proceed with a restructuring of its assets. The Board believes that a restructuring of the Company:

- the Company's current market capitalisation understates the intrinsic value of its gold and iron ore assets;
- investors tend to prefer 'pure play' single commodity focused entities for undertaking valuations and market comparisons;
- providing shareholders with a shareholding in a new company that holds the gold assets, pro-rata to their shareholding in African Aura (which will hold the iron ore assets), will offer exposure to the potential value to be created from each set of assets; and
- following the completion of the Arrangement (as defined below), African Aura and Aureus will be better positioned to finance their respective businesses and grow through exploration and acquisition.

The objective of such restructuring is to enhance shareholder value by, among other things, improving the recognition and value of its iron ore and gold assets by separating these assets into two listed companies.

The Board proposes to complete the reorganization by way of a plan of arrangement (the "Arrangement"), which will be subject to regulatory, shareholder and court approval. Pursuant to the Arrangement, as currently proposed, the Company's gold assets and any related liabilities (as well as its shareholding interest in Stellar Diamonds plc and an amount of cash) will be transferred to a new company to be incorporated and proposed to be called Aureus Mining Inc. ("Aureus"), with African Aura retaining its current interest in its iron ore assets. Under the Arrangement, holders of the Company's common shares will be entitled to receive new common shares of African Aura and common shares of Aureus in exchange for the common shares of African Aura held by such holders on the record date of the Arrangement. Upon completion of the Arrangement, African Aura shareholders will continue to hold a 100% interest in the assets of both African Aura and Aureus. Neither African Aura nor Aureus will hold shares in each other.

#### *Fully underwritten placing*

On October 26, 2010, the Company announced the placing of 13,515,797 new common shares at a price of 150 pence per share raising gross proceeds of approximately £20.3 million (approximately \$32.0 million). Following admission, the total issued share capital of the Company is 85,852,592 common shares.