

Consolidated Financial Statements

African Aura Mining Inc.

For The Year Ended December 31, 2010
(Stated in U.S. Dollars)

Statement of directors' responsibilities and approval of the annual financial statements

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of African Aura Mining Inc. are the responsibility of management and have been approved by the Board of Directors of the Company. The consolidated financial statements include some amounts that are based on management's best estimate using reasonable judgment.

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

Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorised, assets safeguarded and proper records are maintained.

The Audit Committee of the Board of Directors has met with the Company's external auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by BDO LLP, Chartered Accountants, and their report follows.

(Signed) LUIS G. CABRITA da SILVA, DIRECTOR

(Signed) DAVID NETHERWAY, DIRECTOR

Independent Auditor's Report

To the Shareholders of African Aura Mining Inc.

We have audited the accompanying financial statements of African Aura Mining Inc. which comprise the consolidated balance sheet as at December 31, 2010 and 2009, and the consolidated statements of loss and comprehensive loss, consolidated statement of cash flow and consolidated statement of shareholders' equity for the years then ended, and 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 Canadian generally accepted accounting principles, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 the auditor's 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, the auditor considers 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Aura Mining Inc as at 31 December 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO LLP
Chartered Accountants
London, UK
31 March 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

African Aura Mining Inc. (An exploration stage company)

Consolidated Balance Sheet

As at December 31, 2010

(Stated in U.S. dollars)

	2010	2009
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	36,104,442	3,695,796
Receivables (Note 5)	488,010	4,414,215
Inventories (Note 6)	66,692	220,826
	36,659,144	8,330,837
Non-current assets		
Investment in associate (Note 7)	15,198,830	7,200,097
Property, plant and equipment (Note 8)	1,662,821	11,499,181
Resource properties (Note 9)	7,728,713	10,059,428
Deferred exploration costs (Note 9)	30,492,105	22,378,268
Total assets	91,741,613	59,467,811
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,252,822	2,288,447
Convertible debentures (Note 11)	-	3,399,762
Interest payable on convertible debentures (Note 11)	-	120,924
Embedded derivative (Note 11)	-	125,388
Due to associates (Note 7)	316,236	-
Due to joint venture partner (Note 12)	-	709,753
Due to other related parties (Note 19)	141,348	169,711
	2,710,406	6,813,985
Non-current liabilities		
Convertible debentures (Note 11)	-	396,078
Provision (Note 13)	46,373	-
Asset retirement obligation (Note 14)	-	54,369
Total liabilities	2,756,779	7,264,432
Shareholders' equity		
Share capital (Notes 15a, 15b)	104,366,164	50,637,085
Contributed surplus (Notes 15c, 15d)	7,255,394	5,292,619
Warrant reserve (Note 15e)	-	2,808
Equity component of convertible debentures (Note 11)	-	2,637,802
Accumulated other comprehensive loss	(21,755)	(21,755)
Deficit	(22,614,969)	(11,386,831)
Non-controlling interest (Note 16)	-	5,041,651
Total shareholders' equity	88,984,834	52,203,379
Total liabilities and shareholders' equity	91,741,613	59,467,811

The accompanying notes are in integral part of these consolidated financial statements.

Nature of operations and continuation of business (Note 1)

Approved by the Board

(Signed) LUIS G. CABRITA da SILVA, DIRECTOR

(Signed) DAVID NETHERWAY, DIRECTOR

African Aura Mining Inc. (An exploration stage company)

Consolidated Statements of Loss and Comprehensive Loss

For the year ended December 31, 2010

(Stated in U.S. dollars)

	2010	2009
	\$	\$
Revenues		
Net sales (Note 20)	320,367	1,179,004
Operating expenses		
Depreciation, depletion and amortization (Note 8)	246,145	741,362
Other operating expenses	514,861	1,972,313
Gross loss	(440,639)	(1,534,671)
Expenses		
Administrative and office expenses	1,266,597	1,349,718
Directors' fees	293,578	297,445
Foreign exchange loss	563,785	42,816
Management fees	218,366	462,580
Interest on convertible debentures (Note 11)	870,349	1,206,266
Professional fees	1,247,323	1,431,128
Stock-based compensation (Notes 15c, 15d)	1,962,775	722,489
Transfer agent and filing fees	112,946	108,790
Project impairment (Note 9)	2,566,918	7,756,846
Depreciation (Note 8)	397,355	413,250
	(9,499,992)	(13,791,328)
Gain on disposal of Stellar Diamonds Limited (Stellar) (Note 4)	2,913,773	-
Impairment of investment in Stellar (Note 7)	(2,308,501)	-
Gain on disposal of Severstal Liberia Iron Ore Ltd. (SLIO) (Note 7)	-	3,076,366
Loss on disposal of equipment	-	(26,779)
Unrealised foreign exchange loss on convertible debentures (Note 11)	-	(205,309)
Share in results of associate (Note 7)	(2,285,576)	196,623
Interest income (Note 20)	77,866	2,676
Loss for the year	(11,543,069)	(12,282,422)
Loss for the year and Total comprehensive loss		
Attributable to:		
Owners of the parent	(11,230,946)	(7,739,218)
Non-controlling interest	(312,123)	(4,543,204)
	(11,543,069)	(12,282,422)
Basic and diluted loss per share (Note 18)	(0.169)	(0.182)

The accompanying notes are in integral part of these consolidated financial statements.

African Aura Mining Inc. (An exploration stage company)

Consolidated Statement of Cash Flow

For the year ended December 31, 2010

(Stated in U.S. dollars)

	2010	2009
	\$	\$
Operating Activities		
Loss for the year	(11,543,069)	(12,282,422)
Items not involving cash:		
Gain on disposal of SLIO	-	(3,076,366)
Gain on disposal of Stellar	(2,913,773)	-
Project impairment	2,566,918	7,756,846
Impairment of investment in Stellar	2,308,501	
Share in results of associate	2,285,576	(196,623)
Stock-based compensation	1,962,775	722,489
Interest on convertible debentures	870,349	1,206,266
Depreciation of property, plant and equipment	643,500	1,154,612
Provision	46,373	-
Unrealised foreign exchange (gain)/loss on convertible debentures	-	205,309
Unrealised foreign exchange (gain)/loss	(279,475)	152,881
Amounts written back on due to associate (Note 7)	(203,506)	-
Loss on disposal of equipment	-	26,779
Changes in working capital:		
Accounts receivable	(516,774)	65,017
Inventories	114,671	(220,826)
Accounts payable and accrued liabilities	454,651	839,567
Due to associate	177,092	-
Due to related parties	59,935	20,051
	(3,966,256)	(3,626,420)
Investing Activities		
Acquisition of subsidiary	-	3,731,881
Proceeds from disposal of SLIO	4,166,667	-
Disposal of Stellar (Note 4)	(69,382)	-
Investment in associates (Note 7)	(2,778,968)	-
Deferred exploration costs (Note 11)	(11,184,689)	(5,305,617)
Purchase of property, plant and equipment (Note 8)	(1,195,632)	(386,337)
	(11,062,004)	(1,960,073)
Financing Activities		
Proceeds from issue of share capital (net of costs) (Note 15b)	47,432,457	(17,187)
Exercise of options (Note 15b)	18,652	-
Interest paid on convertible debentures	(293,678)	(321,150)
Proceeds from issue of convertible debentures (Note 11)	-	853,161
	47,157,431	514,824
Impact of foreign exchange on cash balance	279,475	(110,441)
Net cash inflow/(outflow)	32,408,646	(5,182,110)
Cash, Beginning of the year	3,695,796	8,877,906
Cash, End of the year	36,104,442	3,695,796

The accompanying notes are in integral part of these consolidated financial statements. Significant non-cash transactions relate to the expiry of share purchase warrants disclosed in Note 15e and expiry and cancellation share options in Note 15d.

African Aura Mining Inc. (An exploration stage company)

Consolidated Statement of Shareholders' Equity

For the year ended December 31, 2010

(Stated in U.S. dollars)

	Common shares		Contributed surplus (Note 15c) \$	Warrant reserve (Note 15e) \$	Equity component of convertible debentures (Note 11a) \$	Deficit \$	Accumulated other comprehensive deficit \$	Non-controlling interest (Note 16) \$	Total shareholders' equity \$
	Number (Note 15b)	Amount (Note 15b) \$							
Balance at January 1, 2009	39,726,376	37,963,124	4,488,976	548,000	2,637,802	(4,098,885)	(21,755)	9,011,297	50,528,559
Loss for the year	-	-	-	-	-	(7,739,218)	-	(4,543,204)	(12,282,422)
Dilution loss	-	-	-	-	-	(96,728)	-	96,728	-
Total comprehensive loss	-	-	-	-	-	(7,835,946)	-	(4,446,476)	(12,282,422)
Expired warrants	-	-	-	(548,000)	-	548,000	-	-	-
Issued on acquisition of African Aura Resources Limited	13,158,080	12,691,148	524,518	2,808	-	-	-	-	13,218,474
Shares issued to non-controlling interest	-	-	-	-	-	-	-	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	-
Balance at December 31, 2009	52,884,456	50,637,085	5,292,619	2,808	2,637,802	(11,386,831)	(21,755)	5,041,651	52,203,379
Total loss and comprehensive loss for the year	-	-	-	-	-	(11,230,946)	-	(312,123)	(11,543,069)
Shares issued on private placing	30,914,567	49,278,442	-	-	-	-	-	-	49,278,442
Share issuance costs	-	(1,845,985)	-	-	-	-	-	-	(1,845,985)
Stock-based compensation	-	-	1,962,775	-	-	-	-	-	1,962,775
Expired warrants	-	-	-	(2,808)	-	2,808	-	-	-
Conversion of convertible debentures	2,053,569	6,277,970	-	-	(2,637,802)	-	-	-	3,640,168
Exercise of share options	11,500	18,652	-	-	-	-	-	-	18,652
Shares issued to non-controlling interest	-	-	-	-	-	-	-	524,917	524,917
Disposal of subsidiary (Note 4)	-	-	-	-	-	-	-	(5,254,445)	(5,254,445)
Balance at December 31, 2010	85,864,092	104,366,164	7,255,394	-	-	(22,614,969)	(21,755)	-	88,984,834

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

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

1. 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 principally in Liberia, Cameroon and Sierra Leone. As discussed in Note 4, Stellar Diamonds Limited ("Stellar") was partially disposed on February 22, 2010.

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 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, its shareholding interest in Stellar Diamonds plc and 40% of the total cash balance before the split will be transferred to Aureus Mining Inc. ("Aureus"). African Aura, thereafter renamed to Afferro Mining Inc., will retain 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.

Although the Mandala alluvial diamond project entered commercial production in April 2009, the Company is still predominantly an exploration stage company. Apart from the cash generated from Mandala until the disposal of Stellar, the Company has no other source of cash flows other than equity offerings and anticipates further operating losses as exploration continues across its property portfolio.

2. Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada.

The Company has prepared these 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.

At December 31, 2010 the Company had cash and cash equivalents of \$36.1 million and the directors believe that the current funds will be sufficient to progress the key projects and to finance general overhead costs of African Aura and Aureus for a period of at least 12 months from the date of filing. At the point of split, currently projected to be around April 13, 2011 40% of the cash and cash equivalents of the Company will be allocated to Aureus (projected to be approximately \$10.6 million) and the balance (approximately \$16.0 million) will stay with African Aura (to be renamed Afferro Mining Inc.).

Uncertainty 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 this uncertainty 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.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies

(a) Principles of consolidation

These financial statements include the accounts of African Aura Mining Inc. and its subsidiaries. The principal subsidiaries are Mano Gold Investments Ltd., Mano River Iron Ore Holdings Ltd. ("MARIOH") and Mano Diamonds Limited. The group companies at December 31, 2010 are set out below:

<u>Company</u>	<u>Place of incorporation</u>	<u>Percentage ownership</u>
Mano Gold Investments Limited and its subsidiaries:	Tortola, British Virgin Islands	100.0%
Mano Gold (Liberia) Ltd. and its subsidiary:	Tortola, British Virgin Islands	100.0%
Bea Mountain Mining Corporation	Monrovia, Liberia	100.0%
Golden Leo Resources Limited and its branch:	Tortola, British Virgin Islands	100.0%
Golden Leo Resources Limited (Sierra Leone Branch)	Freetown, Sierra Leone	100.0%
Golden Limbo Rock Resources Limited and its subsidiary *:	Tortola, British Virgin Islands	100.0%
Golden Limbo Rock Resources SA *	Conakry, Guinea	100.0%
African Aura Resources (LIB) Limited and its subsidiary:	Mahe, Republic of Seychelles	100.0%
African Aura Resources (Liberia) Limited	Liberia	100.0%
African Aura Resources (CAM) Limited and its subsidiaries:	Mahe, Republic of Seychelles	100.0%
Caminex SARL	Cameroon	100.0%
African Aura Resources Cameroon SARL	Cameroon	100.0%
Caminur SARL *	Cameroon	100.0%
African Aura Resources (CAR) Limited *	Mahe, Republic of Seychelles	100.0%
African Aura Resources Centrafique SURL *	Central African Republic	100.0%
African Aura Resources (ZIM) SARL *	Mahe, Republic of Seychelles	100.0%
North West Minerals Ltd. *	Mahe, Republic of Seychelles	100.0%
MARIOH and its subsidiaries:	Mahe, Republic of Seychelles	100.0%
Ridgeway Energy Limited and its subsidiary:	Mahe, Republic of Seychelles	70.0%
Ridgeway Energy Cameroon SARL	Cameroon	100.0%
Fermont Mining Ltd and its subsidiary:*	Mahe, Republic of Seychelles	100.0%
Fermont Mining Ltd *	Cameroon	100.0%
Mano Diamonds Limited	Tortola, British Virgin Islands	100.0%
African Aura Resources (UK) Limited	United Kingdom	100.0%
African Aura Mining Inc. (UK Branch)	United Kingdom	100.0%

* Dormant companies

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

Business acquisitions are accounted for under the purchase method and the results of the operations of these businesses are included in these consolidated financial statements from the acquisition date until the date of disposal or loss of control.

Severstal Liberia Iron Ore Ltd. (SLIO) previously African Iron Ore Group Ltd. was 80% owned by MARIOH until the completion of the transaction with Severstal in December 2008. MARIOH reduced its holding in SLIO to 44.3% in December 2008 and subsequently to 38.5% in December 2009. SLIO is accounted for as an investment in associate in the balance sheet.

The investment in Stellar is held by Mano Diamonds Limited, which is also accounted for as an investment in associate. As discussed in Note 4, Stellar Diamonds Limited was disposed of on February 22, 2010.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of loss. Cumulative post-acquisition movements are adjusted against the carrying amount of investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has unsecured obligations or made payments on behalf of the associate.

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Variable interest entities ("VIEs"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, *Consolidation of Variable Interest Entities* ("AcG 15"), are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. As at December 31, 2010 the Company does not hold an interest in any VIEs.

All intercompany balances and transactions have been eliminated upon consolidation.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(b) **Business combinations**

The acquisition of subsidiaries is accounted for under the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under Section 1582, *Business Combinations*, are recognised at their fair value at the acquisition date.

(c) **Non-controlling interests**

Non-controlling interests exist in less than wholly-owned subsidiaries of the Company and represent the outside interest's share of the carrying values of the subsidiaries. When the subsidiary company issues its own shares to outside interests, a dilution gain or loss arises as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying equity. As set out in Note 3(r) dilution gains or losses are treated as a capital transaction and recognised directly in equity.

(d) **Cash**

Cash and cash equivalents include cash, and those short-term money market instruments that are readily convertible to cash with an original term of less than 90 days.

(e) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of production includes an appropriate portion of production overheads. Net realisable value represents the estimated selling price in the ordinary course of business less marketing costs.

(f) **Property, plant and equipment**

Property, plant and equipment is comprised of office furniture, automobiles and various equipment used in the field, that are initially recorded at cost and depreciated at 30% per annum on a declining balance basis. Property, plant and equipment in the course of construction are not depreciated until it is commissioned and available for use, at which point assets in the course of construction are re-categorised as mining assets.

Mining assets are depreciated using a units of production method based on the quantity of minerals produced over the economically recoverable reserves.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(g) **Resource properties and deferred exploration costs**

The Company follows the method of accounting for its mineral properties whereby all costs related to acquisition, exploration and development are capitalised by property. The carrying value of pre-production and exploration properties is reviewed periodically and either written off when it is determined that the expenditures will not result in the discovery of economically recoverable mineral reserves or transferred to producing mining property, plant and equipment when commercial development commences and amortised on a unit of production basis over the life of the related ore reserves.

The success and ultimate recovery of the Company's exploration costs of its mineral exploration properties is influenced by significant financial risks, legal and political risks, commodity prices, and the ability of the Company to discover economically recoverable mineral reserves and to bring such reserves into future profitable production.

Impairment

The recoverability of amounts shown for pre-production and exploration properties is dependent upon the discovery of economically recoverable mineral reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to finance the development of the properties and on the future profitable production or proceeds from the disposition thereof.

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that the carrying value of the assets may exceed the estimated net recoverable amounts. An asset's carrying value is written down when the carrying value is not recoverable and exceeds its fair value. Impairment reviews for deferred exploration and acquisition costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances apply:

- (i) title to the asset is compromised;
- (ii) variations in metal prices that render the project uneconomic; and
- (iii) unexpected geological occurrences that render the resource uneconomic.

Where estimates of future cash flows are not available and where other factors suggest impairment, management assesses if the carrying value is recoverable and records an impairment if so indicated. The impairment review undertaken during the year identified certain projects that were considered uneconomic and which were therefore written off.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(h) **Measurement uncertainty**

The preparation of financial statements in conformity with Canadian 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 revenues and expenses during the reporting period. Significant balances and transactions affected by management estimates include, but not limited to, the valuation of the consideration on the deemed disposal of Stellar, the carrying value of Company's investment in associates, resource properties, deferred exploration costs, asset retirement obligations and future income tax, the calculation of the fair value of stock-based compensation and warrants as well as the recovery of assets, fair value of convertible debt and the allocation of proceeds between share capital and warrants. Actual results could differ from those estimates.

The amounts used to estimate fair values of stock options and warrants issued are based on estimates of future volatility of the Company's share price, expected lives of the options, expected dividends to be paid by the Company and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the consolidated financial statements of future periods could be significant.

(i) **Loss per share**

The basic loss per share is computed by dividing the loss and comprehensive loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution by including other common share equivalents, such as outstanding stock options, share purchase warrants and shares issuable on convertible loan notes in the weighted average number of common shares outstanding during the year.

(j) **Foreign currency translation**

The functional currency of the Company and all subsidiaries is US Dollars with the exception of the Company's UK Branch and African Aura Resources (UK) Limited which have a functional currency of Pounds Sterling and African Aura Resources Sarl, Caminex Sarl and Ridgeway Energy Sarl which have functional currency of Communaute Financiere Africaine Franc.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities and revenue and expenses arising from foreign currency transactions are translated at the exchange rate in effect at the date of the transaction. Exchange gains or losses arising upon translation are included in the consolidated statement of loss.

Integrated foreign subsidiaries and associates are accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at actual or average rates for the period. Exchange gains or losses arising from the translation are included in the consolidated statement of loss.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(k) **Stock-based compensation**

The Company follows Section 3870, *Stock-Based Compensation*, which requires that all stock-based awards made to non-employees and employees be measured and recognised using a fair value based method. Accordingly, the fair value of options at the date of grant is accrued and charged to the consolidated statement of loss, with an offsetting credit to contributed surplus, over the vesting period.

(l) **Joint ventures**

The Company has entered into certain agreements with third parties to develop exploration projects that are commonly referred to as joint ventures but do not necessarily meet the requirements to apply joint venture accounting. Where this is the case the Company recognises its share of the expenditure on the project and any liabilities arising in respect of the project. Joint venture agreements that do meet the definition of a joint venture under section 3055 are proportionally consolidated.

(m) **Income taxes**

The Company accounts for income taxes whereby future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realisable amount. Future income tax assets are not recognised to the extent the recoverability of such assets is not considered more likely than not.

(n) **Comprehensive income**

Section 1530, *Comprehensive Income*, 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 loss such as unrealised gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive income, components of other comprehensive income, and accumulated other comprehensive income are presented in the statements of comprehensive loss and the statements of shareholders' equity. Amounts previously recorded in "cumulative translation adjustment" have been reclassified to "accumulated other comprehensive income".

(o) **Asset retirement obligation**

The fair value of the liability of an asset retirement obligation is recorded when it is legally incurred and the corresponding increase to the mineral property is depreciated on a units of production basis over the life of the mineral property. If material, the liability is adjusted over time to reflect an accretion element considered in the initial measurement at fair value and revisions to the timing or amount of original estimates and for draw-downs as asset retirement expenditures are incurred.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(p) **Financial instruments**

Section 3855, *Financial Instruments - Recognition and Measurement*, establishes standards for classification, recognition, measurement, presentation and disclosure of financial instruments (including derivatives) and non-financial derivatives in the financial statements. This standard requires the Company to classify all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables or other financial liabilities. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognised in consolidated statement of loss. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost. Available-for-sale investments are measured at fair value with unrealised gains and losses recognised in other comprehensive income. The standard also permits the designation of any financial instrument as held-for-trading upon initial recognition.

The Company has implemented the following classification of its financial assets and financial liabilities:

- Cash and cash equivalents, receivables, are classified as "loans and receivables" and are measured at amortized cost using the effective interest rate method. At December 31, 2010 and 2009 the recorded amount approximates fair value;
- Accounts payable, due to other related parties, due to joint venture partners, due to associates, convertible debentures and related interest payable are classified as "other financial liabilities" and are measured at amortized cost using the effective interest rate method. At December 31, 2010 and 2009 the recorded amount approximates fair value.
- Embedded derivative related to the convertible loan of Stellar Diamonds Limited is measured at fair value with changes recognised in consolidated statement of loss and has been discussed in detail in Note 11.

Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability are included in the carrying amount of the financial asset or financial liability, and are amortized to income using the effective interest rate method.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument. The terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognised in the consolidated statement of loss.

(q) **Revenue**

Revenue relating to the sale of diamonds is measured at the fair value of the consideration received or receivable, net of value added tax, rebates and discounts. Consideration receivable is measured as the amount invoiced on the agreed sale of diamonds.

Sale of diamonds and other products are recognised when the significant risks and rewards of ownership have been transferred to the customer, can be measured reliably and receipts of future economic benefits are probable.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(r) Adoption of new accounting standards and accounting pronouncements

Accounting changes

- (i) The Company early adopted Section 1582, *Business Combinations*, Section 1601 *Consolidated Financial Statements* and Section 1602 *Non-controlling interests* in the year ended December 31, 2009. The adoption of Section 1582 required the additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. It also required that shares issued as consideration be measured based on the fair value at the date of acquisition and that acquisition related costs paid to third parties are excluded from the capitalized cost of acquisition, and charged to the consolidated statement of loss.

The adoption of Sections 1601 and 1602 resulted in the presentation of non-controlling interest as part of shareholders' equity on the balance sheet and the recognition of dilution gains and losses as capital transactions recognised directly in equity.

Adoption of IFRS

- (ii) In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The adoption date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company's approach to the conversion to IFRS includes three phases.

- Phase One, an initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to accounting standards under IFRS. This phase has been completed;
- Phase Two, an in depth analysis of the impact of those areas identified under phase one. This phase is currently in progress; and
- Phase Three, the implementation and quantification of the conversion process, through the preparation of the opening balance sheet as at January 1, 2010 and comparatives. This phase is currently in progress.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

The Company's IT, accounting and financial reporting systems are not expected to be significantly impacted by the implementation of IFRS. Based on the review undertaken during Phase One and the work completed to date under Phase Two, the Company believes the impact that IFRS will have on its current financial position and results will be limited. IFRS will require more extensive disclosure and analysis of balances and transactions in the notes to the financial statements. The specific accounting areas that the Company has been focussing its analysis on are deferred exploration costs, functional currency, impairment of long-lived assets, property, plant and equipment, stock-based compensation.

The above comments should not be considered as a complete list of differences that will result from the transition to IFRS as the Company's analysis is still in progress and no final determinations have been made where choices of accounting policies are available.

4. Deemed disposal of Stellar Diamonds Limited

On February 22, 2010, 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. 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 (see Note 7). Consequently, the Company's interest in Stellar Diamonds plc was diluted from 58.34% to 31.8% at the date of disposal.

Stellar Diamonds plc commenced trading on AIM on February 22, 2010.

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 as at 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 as at 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 between the fair value of the consideration received and carrying value of the net assets as at February 22, 2010 as a gain on disposal attributable to the parent.

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.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

4. Deemed disposal of Stellar Diamonds Limited (continued)

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

	\$
Current assets	
Cash and cash equivalents	69,382
Receivables	28,223
Due from African Aura Mining Inc.	248,090
Inventories	39,463
	385,158
Non-current assets	
Property, plant and equipment (Note 8)	10,388,492
Deferred exploration costs (Note 9)	2,975,998
	13,364,490
Total assets disposed	13,749,648
Current liabilities	
Accounts payable and accrued liabilities	490,276
Interest payable on convertible debenture (Note 11)	51,336
Embedded derivative (Note 11)	125,388
Due to other related parties	20,970
Due to joint venture partner (Note 12)	709,753
	(1,397,723)
Non-current liabilities	
Convertible debenture (Note 11)	485,690
Asset retirement obligation (Note 14)	54,369
	(540,059)
Total liabilities derecognized	(1,937,782)
Non-controlling interest derecognized (Note 16)	(5,254,445)
Net assets and non-controlling interest disposed	6,557,421
Total consideration and on-going investment in associate	9,471,194
Net assets and non-controlling interest disposed	6,557,421
Gain on disposal of Stellar	2,913,773

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 year ended December 31, 2010

(Stated in U.S. dollars)

5. Accounts receivable

	2010	2009
	\$	\$
Receivable from Severstal	-	4,166,667
Other receivables	488,010	247,548
	<u>488,010</u>	<u>4,414,215</u>

The receivable from Severstal relates to the deferred consideration in respect of the subscription of shares in Severstal Liberia Iron Ore Limited that was payable at the discretion of Severstal. The Company received the payment on October 14, 2010.

6. Inventories

	2010	2009
	\$	\$
Diamonds	-	195,072
Fuel and consumables	66,692	25,754
	<u>66,692</u>	<u>220,826</u>

Fuel and consumables are carried at cost. Diamonds are carried at net realisable value.

Inventories of \$114,671 (2009: \$220,826) have been charged to the consolidated statement of loss during the year.

7. Investments in associate

	SLIO	Stellar	Total
	\$	\$	\$
At January 1, 2009	8,093,775	-	8,093,775
Share in result of associates	196,623	-	196,623
Disposal	(1,090,301)	-	(1,090,301)
At December 31, 2009	7,200,097	-	7,200,097
Investment in Stellar (Note 4)	-	9,471,194	9,471,194
Additional investment	3,060,517	61,099	3,121,616
Share in result of associates	(179,536)	(2,106,040)	(2,285,576)
Impairment	-	(2,308,501)	(2,308,501)
At December 31, 2010	10,081,078	5,117,752	15,198,830

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

7. Investments in associate (continued)

Investment in Severstal Liberia Iron Ore Limited

During the year ended December 31, 2008, the Company entered into an agreement with OAO Severstal Resources ("Severstal") for the acquisition of issued and outstanding shares in Severstal Liberia Iron Ore Limited ("SLIO") for \$12.5 million, of which \$4.2 million was payable on or before December 31, 2010 at the discretion of Severstal (Note 5) and subscription of new shares in SLIO amounting to \$15 million. The completion of these transactions reduced the Company's stake in SLIO from 80% to 38.5%. In addition, Severstal extended a loan facility of \$15 million to SLIO which has been fully drawn down as at December 31, 2010. The company's investment in SLIO is accounted for as an investment in associate on the consolidated balance sheet.

Following the drawdown of the loan facility in November 2010, the Company started to contribute to the financing of the project on a pro-rata basis in exchange for new shares in SLIO and in accordance with its 38.5% interest in the Putu Project. The Company's total share in the Q4 2010 funding was \$3,060,517 of which \$342,648 remains unpaid. The contributions will be used to fund the working capital and on-going exploration programme.

The gain on disposal of the 5.83% of SLIO recognised during the year ended December 31, 2009 is set out below.

	2009
	\$
Consideration recognized	4,166,667
Disposal	<u>(1,090,301)</u>
Gain on disposal	<u>3,076,366</u>

The amount due to associate of \$316,236 as at December 31, 2010 relates to the amount payable to SLIO (2009: amount receivable of \$55,552 included in receivables).

Investment in Stellar Diamonds plc

The additional investment during the year relates to the Company's participation in the placing of new funds on February 22, 2010. The Company's interest in Stellar as at December 31, 2010 is 22.1% (2009: 58.34%).

The Company recorded an impairment of \$2,308,501 following the decline in the market value of Stellar from 20 pence on February 22, 2010 to 10.75 pence at December 31, 2010, which management deem to be permanent.

The amounts written back on due to associate of \$203,506 relates to Stellar 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 year ended December 31, 2010

(Stated in U.S. dollars)

8. Property, plant and equipment

	Mining assets \$	Machinery and equipment \$	Total \$
Cost			
At January 1, 2010	10,692,283	2,388,232	13,080,515
Additions	-	1,195,632	1,195,632
Disposal of Stellar (Note 4)	(10,692,283)	(1,423,221)	(12,115,504)
At December 31, 2010	-	2,160,643	2,160,643
Depreciation			
At January 1, 2010	741,362	839,972	1,581,334
Charge for the period	246,145	397,355	643,500
Disposal of Stellar (Note 4)	(987,507)	(739,505)	(1,727,012)
At December 31, 2010	-	497,822	497,822
Net book value			
At December 31, 2010	-	1,662,821	1,662,821
At December 31, 2009	9,950,921	1,548,260	11,499,181

9. Resource properties and deferred exploration costs

	January 1, 2010 \$	Acquisition \$	Impairment \$	December 31, 2010 \$
Resource properties:				
Liberia				
Bea	210,000	-	-	210,000
Ndablama extension	-	141,349	-	141,349
North Bea	2,457,767	-	(2,457,767)	-
	<u>2,667,767</u>	141,349	(2,457,767)	351,349
Cameroon				
Batouri	4,091,266	-	-	4,091,266
Nkout	1,159,105	-	-	1,159,105
Ntem	629,073	-	-	629,073
Akonolinga	480,920	-	-	480,920
Ekomedion	14,297	-	(14,297)	-
	<u>6,374,661</u>	-	(14,297)	6,360,364
Sierra Leone				
Sonfon	1,017,000	-	-	1,017,000
	<u>1,017,000</u>	-	-	1,017,000
	10,059,428	141,349	(2,472,064)	7,728,713

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

9. Resource properties and deferred exploration costs (continued)

	January 1, 2010	Additions	Disposal of Stellar (Note 4)	Impairment	December 31, 2010
	\$	\$	\$	\$	\$
Deferred exploration costs:					
Liberia					
New Liberty	16,996,448	5,561,348	-	-	22,557,796
Weaju	757,598	376,882	-	-	1,134,480
Gondoja	34,348	-	-	-	34,348
North Bea	39,653	7,184	-	(46,837)	-
Silver Hills	3,009	45,098	-	-	48,107
Ndablama	-	288,981	-	-	288,981
	<u>17,831,056</u>	<u>6,279,493</u>	<u>-</u>	<u>(46,837)</u>	<u>24,063,712</u>
Cameroon					
Batouri	330,158	81,931	-	-	412,089
Ntem	8,280	206,743	-	-	215,023
Akonolinga	906	101,714	-	-	102,620
Nkout	4,339	4,407,479	-	-	4,411,818
Ngoa	-	85,409	-	-	85,409
Ekomedion	24,322	23,695	-	(48,017)	-
	<u>368,005</u>	<u>4,906,971</u>	<u>-</u>	<u>(48,017)</u>	<u>5,226,959</u>
Sierra Leone					
Kono	1,919,194	7,302	(1,926,496)	-	-
Sonfon	1,202,093	(659)	-	-	1,201,434
Tongo	702,360	660	(703,020)	-	-
	<u>3,823,647</u>	<u>7,303</u>	<u>(2,629,516)</u>	<u>-</u>	<u>1,201,434</u>
Guinea					
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>(346,482)</u>	<u>-</u>	<u>-</u>
	22,378,268	11,184,689	(2,975,998)	(94,854)	30,492,105

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

9. Resource properties and deferred exploration costs (continued)

	2010	2009
	\$	\$
Deferred exploration costs		
Assays incl. shipment	542,826	18,997
Communications incl. equipment	84,069	34,420
Community relations	434,862	212,540
Consultants and professional fees	496,376	883,387
Data, images, reports and maps	-	9,511
Drilling	4,161,911	1,007,695
Geophysical	420,125	-
Infrastructure incl. roads and bridges	874,791	195,288
Licenses and permit fees	89,709	123,887
Project/field office costs, incl. field equipment	1,385,023	397,365
Salaries and wages	1,849,409	1,047,156
Subsistence	204,782	75,977
Transportation incl. vehicles	640,806	358,509
Net Trans-Hex Joint venture	-	(85,428)
Kono (Petra) joint venture	-	939,318
Net expenditure during the year	11,184,689	5,218,622
Disposal of Stellar	(2,975,998)	-
Impairment	(94,854)	(7,587,346)
Transfer Mandala to property, plant and equipment	-	(2,569,450)
Balance, Beginning of the year	22,378,268	27,316,442
Balance, End of the year	30,492,105	22,378,268

The resource properties and deferred exploration costs relating to North Bea and Ekomedion amounting to \$2,504,604 and \$62,314, respectively, were impaired during the year. In both cases the projects were not being considered to have the economic potential to warrant further exploration. The North Bea licence was also relinquished during the year.

The total impairment charge in acquisition and deferred exploration costs recorded during 2009 was \$7,756,846 of which \$7,000,000 related to the Kono diamond project which was disposed of as part of the deemed disposal of Stellar.

A further \$318,698 and \$446,792 was written off in respect of the Nimini diamond project and the diamond joint venture with REMEC, respectively.

With the exception of New Liberty and Nkout, the Company's projects that remain as at December 31, 2010 are early stage speculative mining projects. The carrying values of these projects are not supported by future estimated cash flows, however, management does not believe there is any indication of impairment. The Company has filed a Preliminary Economic Assessment study pursuant to National Instrument 43-101 on the New Liberty gold project which highlights the potential for a robust open pit mine with a pre-tax net present value of \$234 million based on a price of gold of \$1,100/oz and 10% discount rate. The Company has also announced a mineral resource estimate that is compliant with National Instrument 43-101 for the Nkout iron ore project of 1.04 billion tonnes of iron ore at 34%.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

10. Joint ventures and Project agreements

(a) *Liberia, West Africa*

The Company holds a mineral development agreement ("MDA") licence in Liberia for gold development. This MDA is in Western Liberia and is held by Bea Mountain Mining Corporation, African Aura's local subsidiary. The MDA is valid for 25 years with an option to renew for a further 25 years and is dated November 28, 2001 and approved on March 14, 2002. The MDA allows the Company to conduct pre-feasibility and bankable feasibility studies. On July 29, 2009 the Company was granted by the Government of Liberia a Class A Mining Licence within the Bea MDA. The licence allows the Company to explore and mine in a 457 km² area which encompasses the New Liberty Gold Project, Weaju, Gondoja, Silver Hills and Ndablama.

Severstal acquired a majority interest in the Putu Iron Ore Project in December 2008, which is further explained in Note 8. A Mineral Development Agreement (MDA) for the Putu Project was granted by the Government of the Republic of Liberia on September 2, 2010, and was subsequently ratified by the Legislature of the Republic of Liberia on September 9, 2010. The MDA provides for the development and construction of the Putu Project for a period of twenty-five years and includes a two year extension for exploration until September 30, 2012.

(b) *Sierra Leone, West Africa*

The Sonfon gold project is subject to a joint venture agreement dated June 16, 2010, as amended, with Golden Star Resources Ltd. ("GSR") pursuant to which GSR and the Company respectively hold 51% and 49% interest. Under this agreement, the Company is required to elect by no later than January 31, 2011 to contribute, in accordance with its pro-rata share, to aggregate expenditures made by GSR on the Sonfon project from July 1, 2009 to December 31, 2010 in the amount of \$792,431 in order to retain its 49% interest. The Company elected to pro-rata fund and the amount was paid to GSR in February 2011. The Company records only its share of the deferred exploration costs in this project.

(c) *Cameroon*

The following licences are held by the Company in Cameroon:

- (i) The Batouri licence covers an area of 1,000 km² and targets gold in eastern Cameroon.
- (ii) The Nkout iron ore prospect is located within the 998 km² Djoum licence and targets iron ore southern Cameroon.
- (iii) The Akonolinga licence covers an area of 996 km² and targets iron ore in southern Cameroon.
- (iv) The Ntem licence covers an area of 987 km² and targets gold in southern Cameroon.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

11. Convertible debentures

Below is a summary of the debt element of the convertible debentures at December 31:

	December 31, 2010	December 31, 2009
	\$	\$
Opening balance	3,795,840	2,048,638
Fair value accretion	605,009	781,212
Unrealised foreign currency exchange (gain)/loss	-	205,309
Conversion of Stellar convertible debentures to equity	(274,991)	-
Disposal of Stellar	(485,690)	-
Conversion of African Aura convertible debentures	(3,640,168)	-
Net proceeds from issue of Stellar convertible loan notes	-	727,773
Fair value accretion on Stellar convertible loan notes	-	32,908
Closing balance	<u>-</u>	<u>3,795,840</u>
Included in current liabilities	-	3,399,762
Included in non-current liabilities	-	396,078
	<u>-</u>	<u>3,795,840</u>

(a) Convertible debentures issued by the Company

On September 28, 2010, the £2.3 million (\$3.6 million at the exchange rate in effect on date of conversion) convertible debentures matured and the holders elected to convert them into 2,053,569 common shares at a conversion price of £1.12 per share. The shares were allotted and issued on October 6, 2010. The value of the shares issued comprises of:

	2010
	\$
Debt component of the convertible debentures	3,640,168
Equity component of the convertible debentures	<u>2,637,802</u>
	<u>6,277,970</u>

The convertible debentures were originally issued on September 27, 2007 and had a coupon rate of 9% per annum. As the debentures are convertible into common shares at the option of the holder, they were accounted for in their component parts. The fair value of the conversion option was determined to be \$2,637,802 based on using the Black-Scholes option pricing model. The residual was allocated to the debt component and subsequently carried at amortised cost using the effective interest rate of 44.1% to accrete the liability to the value of the consideration received.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

11. Convertible debentures (continued)

(b) Convertible debentures issued by Stellar

On February 22, 2010, convertible debentures issued by Stellar amounting to \$474,991 (including \$200,000 held by the Company) and accrued interest of \$71,250 (including \$30,000 held by the Company) were converted into Stellar shares. The remaining convertible debentures issued by Stellar of \$485,690, accrued interest of \$51,336 (previously included within accounts payable and accrued liabilities) and related embedded derivative of \$125,388 were derecognized on the deemed disposal of Stellar as discussed in Note 4. The original terms of the Stellar convertible debentures follow:

- (i) Stellar originally issued convertible debentures with a coupon rate of 20% (secured on Mandala mining assets) on May 1, 2009 which raised \$574,991, inclusive of \$200,000 contributed by African Aura which was eliminated on consolidation. These were convertible by the holders into common shares of Stellar at a conversion price of £0.20 per share at any time prior to maturity.

As the conversion option was denominated in foreign currency terms such that the option will not be settled by Stellar exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible debenture (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. The host contract's value on initial recognition is based on an effective interest rate of 30%; the residual value of the proceeds received is allocated to the embedded derivative.

- (ii) Stellar originally issued convertible debentures with a coupon rate of 16.5% per annum (secured on Mandala mining assets) on September 21, 2009 which raised £300,000 (\$478,170). These are repayable on January 21, 2011. The principal amount is convertible by the holders into common shares of Stellar at a conversion price of the lesser of the IPO price and £0.20 per share at any time prior to maturity. The holder will be issued one share purchase warrant for each ordinary share issued pursuant to the conversion which shall be exercisable at the lesser of £0.25 per share or a 25% premium to the IPO price per share expiring 24 months after IPO.

As the terms of the conversion option have an element of variability in the price at which the conversion may take place, the option will not be settled by Stellar exchanging a fixed number of its own equity instruments for a fixed amount of cash. Therefore, the convertible (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. The host contract's value on initial recognition is based on an effective interest rate of 31.4%; the residual value of the proceeds received is allocated to the embedded derivative.

During the year ended December 31, 2010 the total interest expense charged to the consolidated statement of loss for the African Aura and Stellar convertible debentures is \$870,349 (2009: \$1,206,266) including the accretion of the loan to its future value. Included in the consolidated statement of loss for the year ended December 31, 2009 is \$205,309 as a foreign currency exchange rate loss, as the debentures are denominated in sterling.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

12. Due to joint venture partner

The amount owed to Petra Diamonds Limited, in respect of the Kono joint venture diamond project in Sierra Leone, was \$709,753, inclusive of \$20,065 accrued interest as at December 31, 2009. The loan balance accrued interest at a rate of interest based on six month US\$ LIBOR rate plus 5%. During the year ended December 31, 2010, the Company incurred total interest expense of \$5,466 (2009: \$42,877). The outstanding balance was paid by Stellar on February 25, 2010 but was derecognised by the group on February 22, 2010 following the disposal of Stellar (Note 4).

13. Provision

	2010 \$	2009 \$
Beginning of the year	-	-
Recognised during the year	46,373	-
End of the year	46,373	-

The provision as at December 31, 2010 relates to an onerous lease of office premises with a remaining lease term of 2 years.

14. Asset retirement obligation

	2010 \$	2009 \$
Beginning of the year	54,369	-
Recognised during the year	-	54,369
Disposal of Stellar	(54,369)	-
End of the year	-	54,369

The asset retirement obligation as at December 31, 2009 related to the Mandala alluvial mine in Guinea.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

15. Share capital

- (a) **Authorised**
Unlimited number of common shares without par value.
- (b) **Issued**

	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 on private placing	30,914,567	49,278,442
Share issuance costs	-	(1,845,985)
Conversion of convertible debentures	2,053,569	6,277,970
Exercise of share options	11,500	18,652
Balance at December 31, 2010	85,864,092	104,366,164

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 at 65 pence (\$1.00) per share. The direct costs to issue the shares which have been charged to share capital amounted to \$498,848.

On December 6, 2010, the Company announced that it has conducted a fully underwritten private placing to institutional investors raising gross proceeds of £20.3 million (\$31.9 million at the exchange rate of \$1.57) consisting of 13,515,797 new common shares of no par value in the capital of the Company at 150 pence (\$2.36) per share. The direct costs to issue the shares which have been charged to share capital amounted to \$1,347,137.

Directors' participation in the private placing is disclosed in Note 19.

As discussed in Note 11, African Aura's £2.3 million convertible debentures matured on September 28, 2010 and were converted into 2,053,569 new common shares of the Company on October 6, 2010.

On December 24, 2010, the Company issued 11,500 new common shares in exchange for the exercise of 11,500 stock options at a weighted average exercise price of Cdn\$1.71.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

15. Share capital (continued)

(c) *Stock options in the Company*

Details of the stock options outstanding and exercisable during the year are as follows:

	December 31, 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 year	3,359,806	1.42	2,255,000	1.68
Options granted on acquisition of AAR	-	-	794,806	1.30
Options granted	2,698,750	1.33	650,000	0.80
Options expired	(327,500)	1.76	(340,000)	1.92
Options terminated	(6,250)	1.60	-	-
Options exercised	(11,500)	1.71	-	-
End of the year	5,713,306	1.36	3,359,806	1.42

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 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 loss of \$857,053.

On November 1, 2010, the Company granted incentive stock options to a director and employee to purchase up to an aggregate of 240,000 common shares of no par value at an exercise price of Cdn\$2.26 per share, exercisable immediately and for a period of five years. These options have resulted in a charge to the consolidated statement of loss of \$259,241.

The 6,250 options terminated relates to those previously held by an employee who has left the Company.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

15. Share capital (continued)

The options granted during the period have resulted in a charge to the consolidated statement of loss of \$1,962,775 based on the Black-Scholes option pricing model and the following assumptions:

	January 8, 2010	May 13, 2010	November 1, 2010
Weighted average share price	Cdn\$1.22	Cdn\$1.25	Cdn\$2.45
Weighted average exercise price	Cdn\$1.22	Cdn\$1.25	Cdn\$2.26
Expected volatility	69.1%	63.6%	46.6%
Expected life	5 years	5 years	5 years
Risk-free rate	3.05%	3.05%	1.85%
Expected dividend yields	0%	0%	0%

As at December 31, the following stock options were outstanding and exercisable:

Expiry date	December 31, 2010		December 31, 2009	
	Exercise price per share Cdn\$	Number of stock options outstanding	Exercise price per share Cdn\$	Number of stock options outstanding
July 25, 2010	-	-	1.76	327,500
July 31, 2011	1.84	339,125	1.84	344,375
March 16, 2012	1.84	75,000	1.84	75,000
May 20, 2012	1.84	37,500	1.84	37,500
January 17, 2013	1.60	1,118,125	1.60	1,130,625
July 1, 2013	2.80	63,780	2.80	63,780
January 19, 2014	0.80	650,000	0.80	650,000
June 6, 2015	0.41	181,530	0.41	181,530
December 1, 2015	0.84	235,498	0.84	235,498
December 1, 2015	1.25	98,124	1.25	98,124
December 1, 2015	1.67	29,437	1.67	29,437
January 1, 2017	1.43	19,625	1.43	19,625
June 28, 2017	2.29	166,812	2.29	166,812
January 8, 2015	1.22	1,208,750	-	-
May 13, 2015	1.25	1,250,000	-	-
November 1, 2015	2.26	240,000	-	-
		5,713,306		3,359,806

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

15. Share capital (continued)

(d) **Stock options in Stellar**

Details of Stellar's stock options outstanding and exercisable during the year are as follows:

		2010		2009
	Number of options	Weighted average exercise price per share GBP£	Number of options	Weighted average exercise price per share GBP£
Beginning of the year	3,992,500	0.314	3,000,000	0.890
Activity during the year				
Disposal of Stellar	(3,992,500)	(0.314)		
Options granted	-	-	1,000,000	0.225
Cancelled	-	-	(7,500)	0.871
Less options re-priced	-	-	(2,465,000)	0.892
Plus options re-priced	-	-	2,465,000	0.225
End of the year	-	-	3,992,500	0.314

There were no options granted by Stellar up to its disposal. The charge to the consolidated statement of loss for the year ended December 31, 2009 of \$160,554 was calculated with 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 64.5% based on the weighted average volatility from listed company peers, a weighted average annual risk free rate of 2.4% and an expected life of five years.

The options re-priced in 2009 resulted in an additional charge to the consolidated statement of loss in the year ended December 31, 2009 of \$214,788 with Black-Scholes option pricing model and the same assumptions as those options granted in 2009.

(e) **Share purchase warrants in the Company**

On October 13, 2009, the Company issued 1,500,788 warrants to acquire common shares in the Company at a price of \$4.08 per share to the previous warrant holder of African Aura Resources Inc. The fair value of the warrants was determined to be \$2,808 based on the Black-Scholes option pricing model. These warrants expired during the year ended December 31, 2010.

On November 29, 2009, Severstal's 2,500,000 warrants to purchase shares of the Company at an exercise price of £1.12 per share expired. These warrants were granted to Severstal as part of the private placement completed on May 29, 2008.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

16. Non-controlling interest

The non-controlling interest held in Stellar is:

	2010	2009
	\$	\$
Beginning of the year	5,041,651	9,011,297
Comprehensive loss	(312,123)	(4,446,476)
Shares issued to non-controlling interest	524,917	321,213
Non-controlling interest in stock-based compensation	-	155,617
Disposal of Stellar	(5,254,445)	-
End of the year	<u>-</u>	<u>5,041,651</u>

The Company held 58.34% of the outstanding Stellar shares as at December 31, 2009. As discussed in Note 4, the Company's interest in Stellar was diluted to 31.8% following the reverse takeover of WAD and subsequent fund raising on February 22, 2010. As a result, the non-controlling interest as at February 22, 2010 has been derecognized.

Shares issued to non-controlling interest consists of 668,832 shares issued to Stellar directors at a fair value of £0.20 per share as payment for their remuneration in 2009 of \$208,676 and 1,655,301 shares issued on conversion of Stellar convertible debentures and related interest of \$316,241 (see Note 11b), all preceding the reverse takeover of WAD on February 22, 2010.

Stellar incurred a net loss of \$749,215 from January 1 to February 22, 2010 (2009: \$10,944,841).

17. Income taxes

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

	2010	2009
	\$	\$
Statutory tax rate	28.5%	30.00%
Expected income tax recovery	(3,289,775)	(3,684,756)
Foreign income taxes at other than Canadian statutory rate	387,355	582,144
Current year losses not recognized	956,692	-
Expiry of non-capital loss carry forwards	389,319	-
Adjustments related to prior years' tax computations	(788,205)	578,865
Non-deductible stock based compensation	559,391	216,747
Non-deductible interest	172,433	244,236
Non-deductible loss on convertible debt	-	61,589
Other	(55,100)	218,420
Non-taxable portion of gain on sale of assets	-	(630,000)
Increase in valuation allowance (a)	1,667,890	2,412,755
	<u>-</u>	<u>-</u>

(a) During the year ended December 31, 2010 the tax affected benefit of non-capital losses, property, plant and equipment, resource properties and deferred exploration costs and the associated valuation allowance were reduced by \$4,324,148 relating to the disposal of Stellar Diamonds Limited (Note 4).

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

The approximate tax effect of each type of temporary difference that gives rise to the Company's future tax assets are as follows:

	2010	2009
	\$	\$
Non-capital loss carry forwards	3,299,872	1,809,604
Property, plant and equipment, Resource properties and Deferred exploration costs	2,213,969	6,756,000
Share issue costs	420,885	-
Investment in associate	(115,102)	-
Non-remitted taxable gain	(1,704,713)	(1,794,435)
Less: Valuation allowance	<u>(4,114,911)</u>	<u>(6,771,169)</u>
	-	-

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on the valuation allowance is reflected in current income. As management of the Corporation does not currently believe that it is more likely than not that the Corporation will receive the benefit of this asset, a valuation allowance equal to the future tax asset has been established at both December 31, 2010 and 2009.

At December 31, 2010, the Company had the following estimated loss carry forwards available for tax purposes:

	Amount	Expiry
	\$	
Canada	<u>11,578,499</u>	<u>2015-2030</u>

The Company operates in foreign jurisdictions and is subject to audit by taxing authorities. These audits may result in the assessment of amounts different than the amounts recorded in the consolidated financial statements. The Company liaises with the relevant authorities in these jurisdictions in regard to its income tax and other returns. Management believes the Company has adequately provided for any taxes, penalties and interest that may fall due.

These consolidated financial statements do not reflect the potential effect on future income taxes of the application of these losses.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

18. Basic and diluted loss per share

The calculation of the basic and diluted loss per share is based on the following data:

	2010 \$	2009 \$
Loss for the year attributable to owners of the parent	(11,230,946)	(7,739,218)
Weighted average number of shares	66,635,368	42,574,271
Basic and diluted loss per share	(0.169)	(0.182)

Basic and diluted loss per share is the same as the effect of the outstanding share options is anti-dilutive and is therefore excluded.

19. Related party transactions

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

	2010 \$	2009 \$
Incurred management fees by directors	326,641	634,178
Incurred directors fees	293,578	408,095
Incurred professional fees and consultancy services by a director	42,511	107,640
Incurred geologist fee with a company related by a common director	22,453	-

These transactions are in the normal course of business and are payable on demand. A portion of the management fees have been capitalised within the deferred exploration costs.

At 31 December, the amounts due to other related entities are as follows:

	2010 \$	2009 \$
Directors' companies	141,348	9,499
Various directors	-	160,212
	141,348	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 year ended December 31, 2010

(Stated in U.S. dollars)

19. Related party transactions (continued)

The directors' participation in the private placing's during the year is as follows:

Director	April 20, 2010		December 6, 2010		Total	
	Number of shares	GBP£	Number of shares	GBP£	Number of shares	GBP£
David Netherway	19,000	12,350	20,000	30,000	39,000	42,350
Luis da Silva	45,650	29,673	16,667	25,000	62,317	54,673
Guy Pas	538,000	349,700	200,000	300,000	738,000	649,700
David Evans	23,000	14,950	10,000	15,000	33,000	29,950
Steven Poulton	77,000	50,050	13,334	20,001	90,334	70,051
David Reading	-	-	33,334	50,001	33,334	50,001
	<u>702,650</u>	<u>456,723</u>	<u>293,335</u>	<u>440,002</u>	<u>995,985</u>	<u>896,725</u>

20. Segmented information

(a) Industry information

The Company operates in one reportable operating segment, being the acquisition and exploration and development of resource properties.

(b) Geographic information

The Company's revenues from operations and interest income were derived as follows:

	2010 \$	2009 \$
Net sales		
- Guinea	320,367	1,179,004
Interest income		
- United Kingdom	77,866	2,676

The Company's non-current assets by geographic location are as follows:

	2010 \$	2009 \$
Liberia	35,110,020	27,732,692
Cameroon	12,606,536	7,499,062
United Kingdom	5,147,479	47,915
Sierra Leone	2,218,434	4,845,216
Guinea	-	11,012,089
	55,082,469	51,136,974

Additional geographic information is provided in Note 9. The investment in Stellar is included within the United Kingdom.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

21. Financial instruments and financial risk management

The Company's financial assets and liabilities are cash, accounts receivable, accounts payable and accrued liabilities, due to/from joint venture partner, due to other related parties, due to associates, 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:

	2010	2009
	\$	\$
Financial assets:		
<i>Loans and receivables, measured at amortised cost</i>		
Cash	36,104,442	3,695,796
Accounts receivable	488,010	4,414,215
	<u>36,592,452</u>	<u>8,110,011</u>
Financial liabilities:		
<i>Other liabilities, measured at amortised cost</i>		
Accounts payable and accrued liabilities	2,252,822	2,288,447
Convertible debentures	-	3,795,840
Interest payable on convertible debentures	-	120,924
Due to associate	316,236	-
Due to joint venture partner	-	709,753
Due to other related parties	141,348	169,711
	<u>2,710,406</u>	<u>7,084,675</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). As a result, the Company is subject to exposure from fluctuations in foreign currency exchange rates, especially pounds sterling. In general, the Company does not enter into derivatives to manage these currency risks. The Company attempts to reduce its exposure to currency risk by entering into contracts denominated in US Dollars whenever possible. The Company has taken no other action to reduce its exposure to foreign currency risk during 2010.

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

21. Financial instruments and financial risk management (continued)

Carrying value of foreign currency balances	2010	2009
	\$	\$
Cash and cash equivalents, include balances denominated in:		
Pound Sterling (GBP£)	20,934,507	156,338
Canadian Dollar (Cdn\$)	31,880	1,700,828
Communaute Financiere Africaine Francs (CFA)	256,011	71,776
Euros (EUR)	1,192,418	25,041
Others	2,576	17,203
Amounts receivable, include balances denominated in:		
Pound Sterling (GBP£)	161,485	139,878
Canadian Dollar (Cdn\$)	53,337	19,615
Communaute Financiere Africaine Franc (CFA)	273,188	6,308
Amounts payable and accrued liabilities, include balances denominated in:		
Pound Sterling (GBP)	858,217	491,169
Canadian Dollar (Cdn\$)	152,304	194,026
Communaute Financiere Africaine Franc (CFA)	203,448	101,046
Euros (EUR)	54,452	-
Others	-	22,654
Due to other related parties, include balances denominated in:		
Pound Sterling (GBP£)	-	169,711
Convertible debentures, include balances denominated in:		
Pound Sterling (GBP£)	-	3,431,236
Embedded derivative, include balances denominated in:		
Pound Sterling (GBP£)	-	87,853

The sensitivities below are based on financial assets and liabilities held at 31 December 2010 and 2010 where balances were not denominated in the functional currency of the Company. The sensitivities do not take into account the Company's income and expenses and the results of the sensitivities could change due to other factors such as changes in the value of financial assets and liabilities as a result of non-foreign exchange influenced factors.

	Closing exchange rate	Effect on net assets of USD strengthening 10%
		\$
At December 31, 2010		
Pound Sterling (GBP)	0.6465	2,023,778
Canadian Dollar (Cdn\$)	0.9999	(6,708)
Euro (EUR)	0.7546	113,797
Communaute Financiere Africaine Franc (CFA)	485.0300	32,575
At December 31, 2009		
Pound Sterling (GBP)	0.6279	388,375
Canadian Dollar (Cdn\$)	1.0491	152,642
Euro (EUR)	0.6977	2,504
Communaute Financiere Africaine Franc (CFA)	448.6280	2,296

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

21. Financial instruments and financial risk management (continued)

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 in the past 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 generally enters into variable interest bearing borrowings. The Company typically holds cash and cash equivalents with a maturity of less than 32 days and other financial assets with a maturity of up to 6 months to ensure adequate liquidity and flexibility. The maturity of the debt instruments has been set out in Note 11 and is reflected in the table below.

Due to the short maturity of the 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.

The Company ensures that its liquidity risk is mitigated by placing financial assets on short term maturity, thus all financial liabilities are met as they become due:

	Within 30 days \$	30 days - 6 months \$	6 months - 1 year \$
Cash and cash equivalents	36,104,442	-	-
Accounts receivable	63,301	373,761	50,947
Accounts payable and accrued liabilities	(1,059,466)	(677,919)	(455,730)
Net liquidity	35,108,277	(304,158)	(404,783)

All cash and cash equivalents are included within 30 days and would cover the shortfall in 30 days to 6 months and 6 months to one year.

Credit risk

The Company's maximum credit risk exposure is in connection with the cash and cash equivalents held with financial institutions. 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.

	2010 \$	2009 \$
Financial institutions with Standards & Poors AA-rating	29,701,599	3,333,020
Financial institutions with Moody's long-term Ba1 rating	5,659,109	-
Financial institutions un-rated or unknown rating	743,734	362,776
	36,104,442	3,695,796

African Aura Mining Inc. (An exploration stage company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

(Stated in U.S. dollars)

22. 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 31 December 2010.

23. Subsequent events

On January 11, 2011, the Company granted incentive stock options to certain directors and employees to purchase up to an aggregate of 2,285,000 common shares in the Company exercisable for a period of five years at a price of Cdn\$2.75 (US\$2.77) per share.

On February 21, 2011, 229,125 new common shares were issued on exercise of stock options with a weighted average exercise price of Cdn\$1.38 (US\$1.40).

On March 3, 2011, 159,375 new common shares were issued on exercise of stock options with a weighted average exercise price of Cdn\$1.65 (US\$1.69).

On March 28, 2011, a General Meeting of Stellar was held where shareholders approved the placing of new ordinary shares in Stellar raising £6.2 million (before expenses). African Aura did not participate in this placing and consequently, its interest in Stellar has been diluted to 14.2%. The interest in Stellar will be held by Aureus Mining Inc. following the restructuring of the Company.