

**AFFERRO MINING INC.**

**Management's Discussion and Analysis**

**For the three and nine months ended September 30, 2011**

**AFFERRO MINING INC.**  
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**For the period ended September 30, 2011**

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The following discussion is management's assessment and analysis of the results and financial condition of Afferro Mining Inc. (the "Company" or "Afferro" or "Afferro Mining") based on International Financial Reporting Standards ("IFRS") applicable to a going concern and should be read in conjunction with the accompanying condensed interim consolidated financial statements and related notes for the three and nine months ended September 30, 2011. This management discussion and analysis has been prepared based on information available to the Company as at November 14, 2011. Unless otherwise indicated all amounts are in US dollars.

Additional information relating to the Company, including the Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.afferro-mining.com](http://www.afferro-mining.com).

**1. OVERVIEW**

**(a) DESCRIPTION OF BUSINESS**

Afferro is a mineral exploration and development stage company focused on iron ore projects in West Africa and operates in Liberia and Cameroon. Its most advanced projects are the Putu Iron Ore Project in Liberia (38.5% interest) and the Nkout Iron Ore Project in Cameroon (100% interest). The Company has a loyal and strong workforce and supports the local communities in which it operates by sourcing services and supplies locally, creating job opportunities and participating in social programmes. Following the Plan of Arrangement ("Arrangement") transaction on April 13, 2011, the Company's gold and diamond assets were divested into a new company, Aureus Mining Inc., and the Company changed its name from African Aura Mining Inc. to Afferro Mining. The Company is listed on the TSX Venture Exchange (TSX-V: AFF) and the Alternative Investment Market ("AIM") of the London Stock Exchange (LON: AFF).

**(b) COMPANY HISTORY**

The Company was incorporated as Zicor Mining Inc. on March 19, 1996. Effective October 5, 1998, Zicor Mining Inc. purchased all interests of Mano River Resources Ltd. by way of a reverse takeover and changed its name to Mano River Resources Inc.

Mano River Resources Ltd., which subsequently changed its name to Mano Gold Investments Ltd. is a BVI registered company founded in July 1996 by Guy Pas. At the time of the reverse takeover by Zicor Mining Inc., Mano Gold Investments Ltd. and its subsidiaries had spent over \$2.4 million in establishing an in-country presence, acquiring, evaluating and exploring prospective properties, in Liberia.

Upon its establishment, Mano Gold Investments Ltd. acquired the pre-existing assets of Golden Limbo Rock Resources Ltd., Guinea, and Golden Leo Resources Ltd., Sierra Leone, and exploration permits and extensive research in Liberia, for a total consideration of \$5 million paid in shares.

Golden Limbo Rock Resources Ltd. had been actively exploring in Guinea since late 1994, and Golden Leo Resources Ltd. researched Sierra Leone's potential during the course of 1995, subsequently applying for licences immediately following the election of 1996. Licences were also obtained in Liberia since 1994 where, in 1996, a Liberian geologist started assessing the geology.

From its Guinea base, the Company actively expanded into Sierra Leone in 1996 and Liberia in 1997, always with gold prospecting as its main target. As a pioneer in the region the Company had to deal with the serious aftershocks of the civil conflicts in Sierra Leone (1991 to 2002) and in Liberia (1989 to 1996 and 1999 to 2003). At the same time the Company faced a prolonged period of historically depressed gold prices resulting from unusual producer hedging and central bank activity (1996 to 2003). Given this economic and political backdrop, the Company's initial eight years were characterised by survival strategies including diversification into diamonds in 2000.

In June 2005, the Company announced that it had been awarded the Putu Mineral Exploration Licence, an iron ore prospect in Eastern Liberia. On October 14, 2009 the Company announced the completion of its merger with African Aura Resources Ltd. The acquisition combined the two companies' cash resources, and added an early stage gold and iron ore focus in Cameroon to the Company's more advanced Liberian gold and iron ore

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prospects. After closing the transaction the Company undertook a 1 for 8 share consolidation and changed its name to African Aura Mining Inc.

In February 2010, the Company's subsidiary Stellar Diamonds Limited completed a reverse takeover of AIM-listed West African Diamonds plc which subsequently changed its name to Stellar Diamonds plc ("Stellar"). Shares began trading in Stellar (ticker: STEL) on February 22, 2010. Concurrent with completing the reverse takeover Stellar issued new shares diluting the Company's interest to a point where it no longer was a subsidiary of the Company.

In April 2011, the Company completed a spin off of its gold and diamond assets in accordance with the Arrangement which was approved by the Company's shareholders. The Company retained the iron ore assets and changed its name to Afferro Mining Inc. The gold and diamond assets were transferred to Aureus Mining Inc.

#### **(c) STRATEGY**

##### **Introduction**

The Company's strategy is to maximise shareholder value by taking both the Nkout Project and the Putu Project through to production. With this in mind, the Company has commenced discussions with a range of investors whose involvement in Afferro would be more strategic in nature and from whom it is anticipated additional finance (whether equity or debt) may be raised for future infrastructure requirements, in a manner that limits shareholder dilution by whatever means practicable. In addition, it is expected that these industry partners, as well as having infrastructure capabilities, will have a long-term desire for off-take of mine production.

The Company's management believe it is well placed to implement its strategy through the business strengths discussed below:

##### **A Strong Portfolio of Iron Ore Assets**

The Company has a strong portfolio of iron ore assets including:

- The 100% owned Nkout Iron Ore Project in Cameroon, where post period-end the Company announced on November 14, 2011 an indicated mineral resource estimate of 944.4 million tonnes ("Mt") grading 32.7% iron and an inferred mineral resource estimate of 1.05 billion tonnes ("Bt") grading 31.6% iron;
- The 38.5% owned Putu Iron Ore Project in Liberia, which is being explored and operated by the Company's joint venture partner, ZAO Severstal Resource ("Severstal"). Putu has an indicated mineral resource estimate of 1.89Bt grading 33.9% iron and an inferred mineral resource estimate of 1.36Bt grading 34.7% iron; and
- Early stage iron ore prospects in Cameroon including Ntem, Ngoa and Akom Hills.

##### **Experienced Board**

The directors of the Company have extensive experience of operating in Africa and taking projects through development to production. There is a balanced representation of directors with operational, corporate and financial backgrounds. The majority of directors are independent.

##### **Strong Partnerships**

The Company has a strong technical and financial partner in Severstal to help develop the Putu Iron Ore Project.

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**Technically Strong**

The Company has experienced exploration teams in both Cameroon and Liberia. The Company employs up-to-date technological tools to better focus its exploration efforts and has its own drilling equipment and trained drilling teams operating in Cameroon.

**(d) ON-GOING PROJECTS**

Listed below is a summary of the two main projects and their status:

Country	Project	Commodity	Status	Plans	Project Ownership	Treatment in Financial Statements
Cameroon	Nkout	Iron ore	Indicated resource of 944.4Mt grading 32.7% iron; inferred resource of 1.05Bt grading 31.6% iron <sup>2</sup>	A further resource update is planned in H1 2012; infrastructure scoping study nearing completion; and commencing a preliminary economic assessment ("PEA")	100% <sup>1</sup>	Subsidiary
Liberia	Putu	Iron ore	Mineral Development Agreement ("MDA") awarded; indicated resource of 1.89Bt grading 33.9% iron; inferred resource of 1.36Bt grading 34.7% iron	Continue to progress prefeasibility study ("PFS") in H1 2012; delineate direct shipping ore ("DSO") resource in parallel to PFS	38.5%	Associate

1. The Government of Cameroon has a right to receive up a10% stake in the share capital of the operating company.

2. This resource was announced post period end on November 14, 2011

**2. EXPLORATION PROJECTS**

**(a) Nkout Iron Ore Project, Cameroon**

**Introduction**

The Nkout Iron Project is located in the Company's Djoum licence in southern Cameroon. The project was identified from interpretation of airborne magnetic and remote sensing data in 2006 whilst investigating gold occurrences in the 150 km long, Sangemalina-Djoum Archaean greenstone belt. Djoum, the closest town to the Nkout prospect, is located 280 km southeast of the Nsimalen International Airport in Yaoundé. The route from Yaoundé incorporates 170 km of macadam road and 110 km of laterite road. The Nkout project area is located approximately 7.5 km due south of the Djoum to Mbalam road. The terrain is typical of the southern tropical forest of Cameroon, characterised by dense jungle, rivers, swamps and areas of steep topography.

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The Nkout deposit is 100% owned by the Company, subject to a right by the Cameroon government to receive a 10% stake in the share capital of the operating company. The highlights of the project are:

- 944.4Mt of mineral resource at 32.7% iron classified as indicated and 1.05Bt at 31.6% iron classified as inferred (from approximately 5.9 km section)
- Management target: approximately 4Bt total resource
- Ownership: 100%
- Licence area: 489 km<sup>2</sup>
- Test work proves high grade concentrate and sinter fines potential
- Target: Major magnetic geophysical anomaly 20 km in length
- Status: Resource definition drilling
- Potential for DSO which should improve the project economics
- 330 km from proposed deep water port, currently under construction at Kribi
- 30 km from proposed rail line to Kribi; synergies possible from co-operation, both on rail and berth in port

**Resource Estimate**

The Company announced its maiden inferred mineral resource estimate on February 1, 2011. Independent consultants SRK Consulting UK Ltd ("SRK") estimated an inferred mineral resource of 1.04Bt grading 34.2% iron. On June 16, 2011 the Company reported its second resource update at Nkout. The resource increased by 36% with 700.5Mt of mineral resource grading 32.4% iron classified as indicated and 716.5Mt of mineral resource grading 32.4% iron classified as inferred. On November 14, 2011 the Company reported a 41% increase in the resource to 944.4Mt of mineral resource grading 32.7% iron classified as indicated and 1.05Bt of mineral resource grading 31.6% iron classified as inferred.

**Exploration Programme**

General:

The Company has drilled approximately 25,147m on the project, including 15,662m in the nine months to end September 2011 and 19,654m to November 9, 2011. Six rigs are currently on site and one is in-transit. Four of these rigs are owned and operated by Afferro. The Company rigs will be used primarily for the shallower reconnaissance drilling to minimise downtime on the contractor rigs, and optimising the drilling cost. There are approximately 300 workers on site involved in various aspects of the project including, *inter alia*, line cutting, drill pad preparation, infrastructure and construction, drivers, and security. Health and Safety is a focus for the Company and with this in mind a Health and Safety Manager plus support team were recruited in Q3. The majority of the workers on site come from the nearby town of Djoum.

DSO:

In recent months the focus has been to investigate the potential of DSO material which could be mined and shipped for processing off-site leading to potential significant benefits for the project economics. The work to-date supports the case that there is potentially a significant high-grade cap overlaying the banded iron formation (BIF) at Nkout Centre, which would enable Afferro to commence production at an earlier stage requiring less initial capital expenditure. The DSO has been encountered in a line of adjacent holes, perpendicular to strike, with 50m spacing and approximately 200m from an existing hole that indicated DSO potential of 44m at 61% iron.

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#### **Infrastructure**

Afferro has held meetings with government officials and is promoting a strategy whereby the Company is seen to be an active stakeholder in the development of the Kribi rail corridor and port infrastructure. The infrastructure and logistics scoping study is looking at three main options: stand-alone rail and port; shared rail and port; and a slurry pipeline. The conclusions from this study will be announced in early December.

#### **Key Deliverables**

- To further increase the mineral resource estimate at Nkout - a further resource update is planned in Q1 2012
- Complete logistics and infrastructure scoping study in Q4. To assess both cooperative infrastructure plans and stand-alone plans - report received and internal assessment is underway
- Commence a preliminary economic assessment in Q4 which will deliver results during the first half of 2012 - a kick off meeting will be held in late November
- Develop the northern and southern access routes to the project - completed
- Build the southern fly camp - completed
- Upgrade of the health and safety procedures - completed
- Recruitment of additional key staff - majority of key appointments made
- Appoint an Environmental and Social Impact Assessment ("ESIA") contractor to prepare a baseline summary - Rainbow Environmental Consult has been appointed
- Progress on metallurgical testing - results of the latest tests are expected in December
- Improve Health and Safety - key vacancies filled, weekly health and safety briefings to all staff

#### **(b) Putu Iron Ore Project, Liberia**

##### **Introduction**

The Putu Iron Ore Project is located in the south-east of Liberia in Grand Gedeh County, approximately 320 km to the south-east of the capital city of Monrovia. The Project is a joint venture between the Company (38.5%) and Severstal (61.5%), and the licence is held by Putu Iron Ore Mining Inc ("PIOM"). Since November 2010, both companies have been financing the on-going development in proportion to their shareholding.

The highlights are:

- 1.89Bt of resource at 33.9% iron classified as indicated and 1.36Bt at 34.7% iron classified as inferred
- Management target: approximately 3.5Bt total resource
- Ownership: 38.5%
- Licence area: 425 km<sup>2</sup>
- Target: Haematite/Magnetite deposit with a strike of 13 km
- Drilling status: 75,000m completed.
- Favourable metallurgy: Modelled iron recoveries of up to 95%, with concentrate grades of up to 70%. Low levels of deleterious materials (<0.3% Al<sub>2</sub>O<sub>3</sub>, 1-4% SiO<sub>2</sub>). Mass recoveries of 42%
- 120km proposed rail line to coast, with favourable topography
- Two potential deep water ports are being assessed either side of Greenville
- 25-year renewable MDA required for production was ratified in September 2010
  - No free carried interest
  - 4.5% royalty
  - 25% corporate tax rate

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**Mineral Development Agreement**

The Putu Project MDA, the mineral licence held by PIOM, 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, construction and exploitation of the Putu Project for a period of twenty-five years and includes a two year extension for exploration until September 30, 2012.

**Resource Upgrade**

The Company announced a resource estimate upgrade at Putu on February 7, 2011. Independent consultants SRK have estimated a total inferred mineral resource of 2.4Bt grading 34% iron. Of this 185Mt is oxide material grading 37.8% iron, 17Mt is haematite itabirite grading 48.25% iron, and 2.17Bt is magnetite itabirite grading 33.7% iron. A further announcement was made on July 11, 2011, upgrading the resource by 36% with an indicated mineral resource estimate of 1.89Bt grading 33.9% iron and an inferred mineral resource estimate of 1.36Bt grading 34.7% iron. The resource estimate is based on 47,713m of drilling of which 36,630m has been assayed. The Putu model is open at depth and SRK recognises that there is potential to increase the resource targeting material that falls below the optimised pit shell. The next resource update is planned for Q1, 2012.

**PFS Update**

Resource delineation drilling for the PFS is completed with approximately 75,000m drilled as at the end of September 2011. There are around 5,000 samples at the lab waiting to be assayed, although the backlog is expected to be cleared by the end of November 2011. Dedicated rigs to drill potential DSO will be mobilized early in the New Year.

Several metallurgical holes have recently been drilled and discussions are taking place with the metallurgical contractor on the next phase of tests to be undertaken.

Hydrology, hydrogeology and meteorology studies are underway. Dry season spring surveys and flow accretion surveys have been completed, while flow monitoring is ongoing. The study of "total suspended solids and turbidity" of the streams originating from Mt. Jideh is completed. Water quality sampling program is ongoing with results expected to be available end of November. A pumping test program using piezometers is planned for the dewatering study. A comprehensive database has been created to store the findings of the various studies.

A soil baseline study is being planned and scheduled to be completed in early 2012.

Geotechnical study is underway with engineers collecting the required data for PFS input.

A contract has been signed for a Lidar topographic survey which is expected to be conducted in November 2011.

Engineering, port and railway contractors have been selected for the PFS.

Phase one of the feasibility study for the Greenville-Zwedru road renovation was launched in June 2011. Phase one includes meetings with appropriate stakeholders, traffic studies and forecast, land use survey, bridges' survey, and a hydrological study. The final report of Phase one is due by mid-December 2011.

**Key Deliverables**

- Increase level of indicated resource by early Q1, 2012
- Drill for DSO during the first half of 2012
- Complete the PFS during the first half of 2012

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**(c) Other Iron Ore Projects, Cameroon**

The Company holds interests in three other earlier stage iron ore projects in Cameroon: Ntem, Ngoa Hill and Akom Hills.

Post the period end the Company reported that it had identified a significant target at Ntem in south-west Cameroon. The strongest of these has magnetic amplitude of 26,200 nanoTesla ("nT"), which is comparable to the Company's projects in Putu, Liberia (at 36,300nT) and Nkout, Cameroon (at 22,700nT). The target is approximately 2 km in strike length and 1 km in width, in a complex folded zone. The Company will undertake a systematic geological exploration programme leading to reconnaissance drilling in Q1 2012.

The Ngoa Hill project is located 3 km south of the Nkout Project on the adjacent Essong licence, which is 70% owned by the Company. The project contains one prospect which is approximately 2 km long and stands approximately 100m higher than the Nkout Project. A drilling programme at Ngoa in Q4 2010 included 10 reconnaissance holes. This project will be subject to a more detailed exploration programme in the first half of 2012.

The Akom Hills project is comprised of three areas to the northwest of the Nkout Project and is based on the contiguous 100% owned Akonolinga licence. It covers a discontinuous strike length of approximately 20 km based on interpreted airborne geophysical data. Mapping of the project has identified three separate banded iron formation occurrences with a combined strike length of approximately 8km from which samples have been collected. A geophysical interpretation of the 2010 airborne survey data will be undertaken in Q4 2011 for Akom Hills.

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**3. SUMMARY OF PERFORMANCE**

**(a) SUMMARY OF SELECTED QUARTERLY FINANCIAL INFORMATION**

The following is the selected financial information of the Company for the last eight quarters (unaudited):

<b>US Dollars</b>	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Loss for the period from continuing operations	(369,378)	(340,288)	(4,984,940)	(1,677,995)
Loss attributable to the owners of the parent company	(369,378)	(340,288)	(6,375,494)	(3,987,318)
Basic & diluted loss per share from continuing operations	(0.004)	(0.004)	(0.058)	(0.018)
Basic & diluted loss per share from continuing & discontinued operations	(0.004)	(0.004)	(0.074)	(0.052)
Total assets	63,166,070	40,148,256	90,326,902	91,336,564
<b>US Dollars</b>	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>	<b>December 31, 2009<sup>(1)</sup></b>
(Loss)/Income for the period from continuing operations	(1,044,744)	(1,502,217)	(1,519,788)	582,892
(Loss)/Income attributable to the owners of the parent company	(1,765,355)	(4,884,701)	716,206	582,892
Basic & diluted (loss)/income per share from continuing operations	(0.015)	(0.023)	(0.023)	0.028
Basic & diluted (loss)/income per share from continuing & discontinued operations	(0.025)	(0.073)	0.014	0.028
Total assets	64,988,297	65,133,871	55,057,068	59,467,811

<sup>(1)</sup> Information for 2009 is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

The Company's performance is not affected by seasonal trends. As an explorer the Company has historically incurred losses, however, in the quarters ended December 31, 2009 and March 31, 2010 the Company recorded net income attributable to owners of the parent of \$582,892 and \$716,206 respectively. This income arose as a result of several one-off transactions including dilution gains on investments in Stellar and Severstal Liberia Iron Ore Ltd. ("SLIO") and a gain on the sale of shares in SLIO.

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**(b) RESULTS OF OPERATIONS**

**(i) CONSOLIDATED STATEMENT OF (LOSS)/INCOME - ATTRIBUTABLE TO THE OWNERS OF THE PARENT**

**(a) Review of three months ended September 30, 2011 compared to the three month period ended September 30, 2010.**

The loss in the third quarter ("Q3"), 2011 attributable to owners of the parent at \$0.4 million compares with a loss of \$1.8 million for the corresponding period last year. The reduction in the loss of \$1.4 million in Q3 is due to a number of factors which are detailed below:

- (1) Wages and salaries at \$0.2 million in Q3 declined by \$0.1 million mainly due to lower accruals of national insurance contributions related to in-the-money share options held by UK employees;
- (2) The Company's USD deposits held by the UK Branch of the Company benefited from stronger dollar rates giving rise to a \$0.7 million foreign exchange gain for the period compared with \$0.1 million last year;
- (3) The finance expense in Q3 2010 of \$0.3 million relates to interest on convertible debentures. The convertible debentures were converted by the holders on September 28, 2010 and from this date no further interest charge was incurred; and
- (4) The loss from discontinued operations in the quarter is zero. This compares with an expense of \$0.7 million primarily relating to the Company's share of the losses of Stellar in Q3 2010.

The above savings were partly offset by a higher share based payments charge of \$0.1 million relating to the 150,000 stock options awarded in Q3 and higher other expenses up by \$0.2 million mainly due to travel-related costs.

**(b) Review of nine months ended September 30, 2011 compared to the nine month period ended September 30, 2010.**

The loss for the nine months to September 30, 2011 attributable to owners of the parent at \$7.1 million compares with a loss of \$6.2 million for the corresponding period last year. The main variances are detailed below:

- (1) Legal and professional fees at \$1.5 million in 2011 are \$0.9 million above last year. A significant part of the increase relates to the costs of the Arrangement including legal fees of \$0.5 million, accounting fees of \$0.1 million, share registrar fees of \$0.1 million; and nominated advisor and broker fees of \$0.1 million;
- (2) Depreciation for the 2011 period at \$0.4 million is \$0.2 million above last year. The net book value of property, plant and equipment has increased from \$1.4 million last year to \$2.1 million as at Q3 resulting in a doubling of the depreciation charge;
- (3) Wages and salaries at \$0.3 million for the 2011 period are \$0.3 million below last year. Q3 2010 included \$0.2 million accrual of national insurance contributions related to in-the-money share options held by UK employees;
- (4) The Company's USD deposits held by the Company's UK Branch benefited from a stronger dollar rates giving rise to a \$0.9 million foreign exchange gain for the current period, \$0.5 million higher than the prior period;
- (5) Share based compensation at \$2.6 million is \$0.9 million higher than last year. The higher charge reflects a higher fair value per option of \$1.06 in 2011 versus \$0.69 in 2010;

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- (6) Other expenses of \$1.5 million increased by \$1.0 million over 2010. The main expense movements included travel-related costs, stock market and registrar fees and a \$0.2m write-back of amounts due from Stellar in 2010;
- (7) The finance expense, which relates to the interest on convertible debentures, was zero in the current period compared with a charge of \$0.9 million last year. The convertible debentures were converted by the holders on September 28, 2010 and from this date no further interest charge was incurred. In addition to the interest charge, Q3 2010 included an unrealised foreign gain as a result of the convertible debentures being denominated in pounds sterling;
- (8) Share in results of associate relates to SLIO and amounted to \$0.3 million for the current period. This was \$0.2 million higher than last year due to interest charges on the \$15 million loan facility from Severstal which started in Q3 2010 and higher depreciation charges; and
- (9) Loss on discontinued operations of \$1.4 million in the current period is \$0.8 million lower than the same period last year following the Aureus split under the Arrangement in April 2011 which included the loss-making Stellar investment.

**(ii) BALANCE SHEET, LIQUIDITY, CAPITAL RESOURCES AND CASH FLOWS**

**Balance Sheet at September 30, 2011 versus December 31, 2010**

Total assets of \$63.2 million at September 30, 2011 are \$28.2 million below those held at 31 December 2010. Upon the completion of the Arrangement on April 13, 2011 assets valued at \$48.7 million were distributed to Aureus Mining. However, non-current assets at \$40.3 million are \$22.5 million above the December level due to increase in investment in associates of \$9.2 million mainly as a result of the Company meeting its 38.5% share of ongoing expenditure at Putu; deferred exploration costs in Cameroon being higher by \$12.2 million (including \$11.9 million incurred at the Nkout project) and a net increase in property, plant and equipment of \$1.1 million. Property, plant and equipment additions totalled \$1.6 million and included computer equipment (\$0.2 million), field equipment (\$0.8 million) and vehicles (\$0.6 million) which are being used at Nkout, Cameroon.

Total liabilities of \$2.3 million at September 30, 2011 are \$0.5 million lower than those held at 31 December 2010. Related party liabilities of \$0.3 million in December 2010 were settled during the period and the liabilities related to Aureus Mining of \$0.7 million were distributed on completion of the Arrangement. Trade and other payables at \$2.3 million are \$0.5 million above last year – higher trade payables in Cameroon up \$1.0 million were offset by lower UK accruals by \$0.5 million (mainly reversal of the national insurance contributions of in-the-money options held by UK employees).

Total shareholders' equity of \$60.9 million at September 30, 2011 is \$27.7 million below the December 2010 level. The main movements were: net proceeds from the July 2011 private placing of \$24.2 million; exercise of share options for \$0.9 million; increase in the share based payments reserve of \$2.6 million; a reduction in the cumulative translation reserve of \$0.1 million due to the translation of sterling balances of the Company's UK Branch into US dollars; and the increase in the deficit of \$55.3 million comprising the distribution of \$48.2 million of net assets to Aureus Mining in the Arrangement and a \$7.1 million loss for the period.

**Liquidity and Capital Resources**

The Company's primary source of funding has been the sale of equity securities. As at September 30, 2011 the Company had cash and cash equivalents of \$21.8 million compared to \$36.1 million as at December 31, 2010 (\$21.7 million of the latter related to continuing operations and \$14.4 million relating to assets held for distribution) and has no debt. In order to meet its planned exploration budget the Company raised \$24.2 million net of share issue costs in a private placing in July 2011.

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**Cash Flows**

**(i) Cash flows for the three months ended September 30, 2011 compared to the three months ended September 30, 2010**

The net increase in cash for Q3 2011 amounted to \$14.8 million leaving a cash balance of \$21.8 million. This compares with a decrease in cash of \$3.6 million for the corresponding period last year leaving a cash balance of \$10.0 million at the end of Q3 2010.

The cash outflow from operating activities of \$1.0 million in the current period includes overhead related costs such as the non-direct costs associated with the private placement in July 2011, rent, recurring professional fees and corporate salaries. The cash outflow was \$0.8 million last year.

The cash outflow from investing activities in Q3 is \$8.1 million, \$4.7 million higher than last year. The variance reflects the higher exploration expenditure (\$3.0 million) together with payments for Putu of \$1.8 million which last year were met by our partner, Severstal.

The cash inflow from financing activities amounted to \$24.5 million compared with \$0.1 million interest paid on convertible debentures during the same period last year. The cash flow this quarter arose from the \$24.2 million net proceeds of the July private placement and \$0.3 million from the exercise of share options.

**(ii) Cash flows for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010**

The net decrease in cash for the period amounted to \$14.3 million leaving a cash balance of \$21.8 million. This compares with an increase in cash of \$6.3 million for the corresponding period last year leaving a cash balance of \$10.0 million.

The cash outflow from operating activities of \$3.6 million is \$1.6 million higher than last year primarily due to Arrangement costs and indirect costs from the private placement in July 2011.

The cash outflow from investing activities of \$25.5 million is \$17.3 million higher than last year. The variance is due to increase in capital asset purchases (\$0.8 million), higher exploration expenditure (\$6.6 million) together with payments for Putu of \$9.8 million which last year were met by our partner, Severstal.

The cash inflow from financing activities amounted to \$14.4 million compared with an inflow last year of \$16.6 million. The inflow in the period arose from the net proceeds of the private placement of \$24.2 million, proceeds from exercise of share options of \$0.9 million, off-set by the distribution of \$10.8 million cash to Aureus Mining in the Arrangement. Last year \$16.9 million was raised from the issuance of shares offset by interest paid on convertible debentures of \$0.3 million.

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**(c) OTHER INFORMATION**

**(i) Outstanding share data**

	Shares	\$
Balance at January 1, 2010	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 stock options	11,500	18,652
Balance at December 31, 2010	85,864,092	104,366,164
Shares issued on private placing	17,318,897	25,334,295
Share issuance costs	-	(1,088,120)
Cancelled shares	(444)	-
Exercise of stock options	752,155	920,584
<b>At September 30, 2011</b>	<b>103,934,700</b>	<b>129,532,923</b>

On July 22, 2011, the Company announced that it has completed a private placing raising gross proceeds of £15.5 million (\$25.3 million at the exchange rate of \$1.63) consisting of 17,318,897 new common shares without par value in the capital of the Company at 90 pence (\$1.47) per share. The direct costs to issue the shares amounted to \$1.1 million.

**Stock options**

The fair value of the 2,425,000 stock options of the Company granted during the year is estimated at \$1.06 per option (period ended September 30, 2010: 2,458,750 stock options at \$0.69 per option) at the grant date based on the Black-Scholes option-pricing model using the following assumptions:

	September 30, 2011	September 30, 2010
Dividend yield	0%	0%
Risk free interest rate	2.44%	3.05%
Expected life	5 years	5 years
Weighted average expected volatility on AIM	45%	66%
Weighted average exercise price	Cdn\$1.65	Cdn\$0.74

	September 30, 2011		December 31, 2010	
	Number of options	Weighted average exercise price per share Cdn\$	Number of options	Weighted average exercise price per share Cdn\$
Beginning of the period	5,713,306	0.82	3,359,806	0.86
Options granted	2,435,000	1.65	2,698,750	0.80
Options forfeited	(173,218)	(0.95)	(6,250)	(0.96)
Options expired	(18,750)	(1.11)	(327,500)	(1.06)
Options exercised	(752,155)	(0.89)	(11,500)	(1.03)
End of the period	7,204,183	1.08	5,713,306	0.82

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**(ii) Assets distributed to Aureus Mining**

In November 2010 the Company committed to entering into the Arrangement, pursuant to which the Company's interests in its gold assets (including the New Liberty Gold Project in Liberia), as well as shares representing approximately 14% of the outstanding ordinary shares of Stellar and cash and cash equivalents equal to approximately 40% of the Company's total cash balance as at April 13, 2011, the effective time of the Arrangement ("Effective Time") were transferred to Aureus Mining (the "Transferred Assets") together with certain related liabilities. As a result of the Arrangement, each shareholder of the Company received one new common share of the Company and one common share of Aureus Mining for each common share of the Company held by such shareholder at the Effective Time, thereby splitting the Company's business and assets between gold and diamond assets in Aureus Mining and iron ore assets remaining in the Company. In addition, the Company changed its name to "Afferro Mining Inc." as part of the Arrangement.

On April 5, 2011, the Company received the requisite shareholder approval for the Arrangement at the Company's special meeting of shareholders. On April 13, 2011, the Arrangement was completed and as a result, the Transferred Assets and certain liabilities were distributed to Aureus Mining. The major classes of assets and liabilities distributed to Aureus Mining on April 13, 2011 and the operations classified as held for distribution as at December 31, 2010 are as follows:

	<b>April 13, 2011</b>	December 31, 2010
	\$	\$
Cash and cash equivalents	<b>10,776,952</b>	14,441,778
Trade and other receivables	<b>31,434</b>	28,905
Intangible assets		
- Resource properties	<b>5,459,615</b>	5,459,615
- Deferred exploration costs	<b>27,924,114</b>	25,691,032
Property, plant and equipment	<b>668,662</b>	613,878
Available for sale asset - Stellar	<b>3,824,342</b>	-
Investment in associates	-	5,117,752
<b>Total assets</b>	<b>48,685,119</b>	<b>51,352,960</b>
Trade and other payables	<b>450,147</b>	515,193
Due to related party	-	141,349
<b>Total liabilities</b>	<b>450,147</b>	<b>656,542</b>

The loss from discontinued operations which have been included in the consolidated statement of comprehensive (loss)/income is as follows:

	<b>3 months ended September 30, 2011</b>	3 months ended September 30, 2010	<b>9 months ended September 30, 2011</b>	9 months ended September 30, 2010
	\$	\$	\$	\$
Revenue	-	-	-	320,367
Cost of sales	-	-	-	(761,006)
Gross loss	-	-	-	(440,639)
Impairment of intangible assets	-	-	-	(2,504,604)
Other income/(expenses)	-	18,428	<b>(97,230)</b>	(343,168)
Gain on disposal of Stellar	-	-	-	2,913,773
Loss of significant influence in Stellar	-	-	<b>(744,680)</b>	-
Share of results of Stellar	-	(739,039)	<b>(548,730)</b>	(1,804,990)
Interest income	-	-	<b>86</b>	404
<b>Loss from discontinued operations</b>	<b>-</b>	<b>(720,611)</b>	<b>(1,390,554)</b>	<b>(2,179,224)</b>

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

	Mining assets \$	Machinery and equipment \$	Vehicles \$	Total \$
<b>Cost</b>				
At January 1, 2010	10,692,283	2,106,359	256,848	13,055,490
Additions	-	367,947	829,062	1,197,009
Disposal of subsidiary	(10,692,283)	(1,332,563)	(90,658)	(12,115,504)
Transfer to assets held for distribution	-	(187,383)	(528,250)	(715,633)
Foreign exchange	-	(24,314)	(3,349)	(27,663)
At December 31, 2010	-	930,046	463,653	1,393,699
Additions	-	995,354	584,574	1,579,928
Foreign exchange	-	(16,482)	-	(16,482)
At September 30, 2011	-	<b>1,908,918</b>	<b>1,048,227</b>	<b>2,957,145</b>
<b>Depreciation</b>				
At January 1, 2010	741,362	766,057	73,932	1,581,351
Charge for the year	246,145	291,187	106,169	643,501
Disposal of subsidiary	(987,507)	(691,039)	(48,466)	(1,727,012)
Transfer to assets held for distribution	-	(36,956)	(64,798)	(101,754)
Foreign exchange	-	(1,240)	(252)	(1,492)
At December 31, 2010	-	328,009	66,585	394,594
Charge for the period	-	235,912	196,040	431,952
Foreign exchange	-	(481)	-	(481)
At September 30, 2011	-	<b>563,440</b>	<b>262,625</b>	<b>826,065</b>
<b>Net book value</b>				
At January 1, 2010	9,950,921	1,340,302	182,916	11,474,139
At December 31, 2010	-	602,037	397,068	999,105
At September 30, 2011	-	<b>1,345,478</b>	<b>785,602</b>	<b>2,131,080</b>

Additions totalled \$1.6 million and included computer equipment (\$0.2 million), field equipment (\$0.8 million) and vehicles (\$0.6 million) which are being used at Nkout, Cameroon.

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**(iv) Intangible assets**

	January 1, 2011 \$	Additions \$	September 30, 2011 \$
<b>Resource properties:</b>			
<b>Cameroon</b>			
Nkout	963,089	-	<b>963,089</b>
Ntem	523,203	-	<b>523,203</b>
Akonolinga	399,984	-	<b>399,984</b>
	<u>1,886,276</u>	-	<u><b>1,886,276</b></u>
<b>Deferred exploration costs:</b>			
<b>Cameroon</b>			
Nkout	4,398,028	11,918,226	<b>16,316,254</b>
Ntem	214,377	9,964	<b>224,341</b>
Akonolinga	102,302	29,786	<b>132,088</b>
Ngoa	85,067	238,220	<b>323,287</b>
	<u>4,799,774</u>	<u>12,196,196</u>	<u><b>16,995,970</b></u>

The majority of the expenditure incurred during the period was spent on Nkout, the Company's flagship project. Expenditure to-date at Nkout of \$16.3 million has delivered an estimated indicated resource of 944Mt grading 32.7% iron and inferred resource of 1.05Bt grading 31.6% iron.

Expenditure in Q3 amounted to \$6.0 million including infrastructure, access and road-building (\$2.3 million), salary and wages (\$1.2 million), drilling (\$1.1 million) and consultants and professional fees (\$0.6 million).

**(v) Going concern**

The Company has prepared its interim 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 September 30, 2011 the Company had cash and cash equivalents of \$21.8 million. The directors believe that the current funds will be sufficient to finance the operation for the foreseeable future.

**(vi) Transition to IFRS**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that significantly affects financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transitional period. In February 2008, the AcSB announced that 2011 is the adoption date for publicly listed companies to use IFRS, replacing Canadian GAAP. The adoption date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's adoption date of January 1, 2011 has involved 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 included 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;
- Phase Two, an in depth analysis of the impact of those areas identified under phase one; 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.

The Company's IT, accounting and financial reporting systems were not significantly impacted as a result of the transition to IFRS and no changes in the Company's system of internal controls over financial reporting were required upon the adoption of IFRS.

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The note to the condensed interim consolidated financial statements provides more detail on the Canadian GAAP to IFRS differences, our accounting policy choices and optional exemptions taken under IFRS1 – First time adoption of International Financial Reporting Standards.

Upon completion of the Company's transition project the following adjustments were identified as necessary:

**Assets distributed to Aureus Mining**

The Company transferred certain assets and liabilities to Aureus Mining on April 13, 2011. As the Company was committed to such a distribution prior to December 31, 2010 the provisions of IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations have been applied. Canadian GAAP permits a specific exemption whereby assets to be disposed of by other than sale should be classified as held until disposed of. This difference has no impact on net assets or total comprehensive (loss)/income.

**Translation of foreign subsidiaries**

All of the Company's foreign operations were classified as integrated under Canadian GAAP whereby foreign currency subsidiaries were translated into the group presentation currency using the temporal method with resulting differences taken to income/(loss). IAS 21 - The Effects of Changes in Foreign Exchange Rates does not distinguish between integrated and self-sustaining foreign operations and all foreign currency subsidiaries are translated into the group presentation currency using the closing rate method with resulting differences recognised in other comprehensive (loss)/income. Additionally as a result of the exemption taken under IFRS 1 to reset the cumulative translation reserve to zero upon transition to IFRS a balance of \$21,755 in the accumulated other comprehensive loss reserve was taken to deficit. The Company recognised a decrease in equity of \$202,247 as at January 1, 2010 as a result of these differences (September 30, 2010 \$271,677, December 31, 2010 \$433,955).

**Financial statement presentation changes**

The transition to IFRS has resulted in minor financial statement presentation changes. The changes to the statement of financial position relate to minor changes to the descriptions, all classifications remain the same. Changes to the statement of comprehensive (loss)/income relate to classification changes for certain items of expense. The most significant of these changes is that wages and salaries have been broken out of administrative and office expenses and interest on convertible debentures has been classified as a finance expense. None of these changes has an impact on total comprehensive (loss)/income.

**Reconciliation of Cash Flows**

The transition to IFRS has resulted in presentation changes on interest on convertible debentures and interest income. Under IFRS, finance income and finance costs are accounted for as non-cash reconciling items under operating activities and interest paid and interest received are presented as financing and investing activity, respectively.

**(vii) Critical accounting estimates**

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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Significant balances and transactions affected by management estimates include, but not limited to, the carrying value of Company's investment in associates, intangible assets, the calculation of the fair value of share based payments. Actual results could differ from those estimates.

The amounts used to estimate fair values of stock options 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 interim financial statements of future periods could be significant.

**(viii) Investment in associates**

The investment in associate relates to the Company's investment in SLIO. During Q2 2011 the Company's ownership of Stellar was diluted to 14.2%, thus significant influence was lost and Stellar was accounted for as an available-for-sale financial instrument until its distribution to Aureus. The movement in the investment in associates is detailed below:

	SLIO Continuing \$	Stellar Discontinued \$	Total \$
At January 1, 2010	7,200,097	-	7,200,097
Investment in Stellar	-	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
Additional investment	9,503,328	-	9,503,328
Share in result in associates	(307,071)	(548,730)	(855,801)
Loss of significant influence of associate	-	(744,680)	(744,680)
Transfer to financial instruments	-	(3,824,342)	(3,824,342)
<b>At September 30, 2011</b>	<b>19,277,335</b>	<b>-</b>	<b>19,277,335</b>

**(ix) Segment information**

The Company is engaged in the acquisition, exploration and development of iron ore in the West African countries of Liberia and Cameroon. Information presented to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is focused on the geographical location of the exploration commodity. The reportable segments under IFRS 8 are as follows:

- Cameroon exploration;
- Liberia exploration;
- Discontinued operations of the gold properties and diamond interests; and
- Corporate and other activities.

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Following is an analysis of the Group's results, assets and liabilities by reportable segment for the period ended September 30, 2011:

	Cameroon	Liberia	Discontinued operations	Corporate and other	Consolidated
	\$	\$	\$	\$	\$
<b>As at September 30, 2011</b>					
Segment assets	21,678,806	19,306,798	-	22,180,466	63,166,070
Segment liabilities	(1,860,644)	-	-	(438,329)	(2,298,973)

**For the 9 months ended September 30, 2011**

Loss for the period	(718,013)	(307,071)	(1,390,554)	(4,669,522)	(7,085,160)
Depreciation of property, plant and equipment	(396,639)	-	(46,041)	(35,313)	(477,993)
Capital additions:					
– property, plant and equipment	1,466,408	-	100,824	113,520	1,680,752
– intangible assets	12,196,196	-	2,233,305	-	14,429,501

**For the 3 months ended September 30, 2011**

Loss for the period	(179,402)	(109,672)	-	(80,304)	(369,378)
Depreciation of property, plant and equipment	(163,091)	-	-	(18,978)	(182,069)
Capital additions:					
– property, plant and equipment	538,183	-	-	19,351	557,534
– intangible assets	6,008,565	-	-	-	6,008,565

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Following is an analysis of the Group's results, assets and liabilities by reportable segment for the period ended September 30, 2010:

	Cameroon \$	Liberia \$	Discontinued operations \$	Corporate and other \$	Consolidated \$
<b>As at September 30, 2010</b>					
Segment assets	6,245,226	14,875,434	30,013,822	13,853,815	64,988,297
Segment liabilities	(483,208)	-	(465,473)	(4,758,314)	(5,706,996)

**For the 9 months ended September 30, 2010**

Loss for the period	(528,594)	(51,966)	(2,179,224)	(3,486,188)	(6,245,972)
Depreciation of property, plant and equipment	(175,083)	-	(311,869)	(20,555)	(507,507)
Impairment of intangible assets	(62,314)	-	(2,504,604)	-	(2,566,918)
Capital additions					
– property, plant and equipment	377,945	-	397,810	58,044	833,799
– intangible assets	2,723,350	-	4,557,799	-	7,281,149

**For the 3 months ended September 30, 2010**

Loss for the period	274,799	(51,966)	(720,611)	(1,267,577)	(1,765,354)
Depreciation of property, plant and equipment	(71,365)	-	(27,473)	(7,599)	(106,437)
Impairment of intangible assets	(62,314)	-	-	-	(62,314)
Capital additions					
– property, plant and equipment	296,053	-	329,875	2,722	628,650
– intangible assets	1,395,027	-	1,321,130	-	2,716,157

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**(x) Related party transactions**

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

	<b>3 months ended September 30, 2011 \$</b>	3 months ended September 30, 2010 \$	<b>9 months ended September 30, 2011 \$</b>	9 months ended September 30, 2010 \$
<b>Continuing operations</b>				
Incurring management fees	<b>154,387</b>	50,681	<b>460,129</b>	251,395
Incurring directors fees	<b>48,304</b>	55,559	<b>175,435</b>	223,353
Management and office service fees to Aureus Mining	<b>147,496</b>	-	<b>175,000</b>	-
Consulting and service fees to Stellar	<b>27,192</b>	27,192	<b>81,576</b>	67,980
Consulting and service fees to SLIO	<b>10,434</b>	8,238	<b>33,650</b>	25,285
<b>Discontinued operations</b>				
Incurring professional fees and consultancy services with a director	-	-	<b>78,311</b>	-
Incurring professional fees and consultancy services with a director of Aureus Mining	-	-	<b>29,167</b>	-
Incurring geologist fee with a company related by a common director	<b>12,399</b>	-	<b>2,935</b>	23,947
Receipt of bridging loans from Stellar	-	-	-	400,000

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.

The amounts due from/(to) related parties which are included in trade and other payables are as follows:

	<b>September 30, 2011 \$</b>	December 31, 2010 \$
Aureus Mining	<b>39,874</b>	-
SLIO	<b>29,463</b>	(345,141)
	<b>69,337</b>	(345,141)

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.

**(xi) Off balance sheet arrangements**

The Company does not have any off-balance sheet arrangements and does not contemplate having any in the foreseeable future.

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**4. FORWARD-LOOKING STATEMENTS**

Certain information included in this document may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied. Factors that could cause actual results or events to differ materially from current expectations include but are not limited to: exploration risks, the grade and recovery of ore which is mined varying from estimates; estimates of future production, mine development costs, timing of commencement of operations; changes in exchange rates; access to capital; fluctuations in commodity prices; and adverse political and economic developments in the countries in which we operate. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

**5. TRENDS IN THE MINING SECTOR**

i) General

After bottoming in early 2009, the industry recovered much more quickly than most would have predicted. Although the recovery remained fragile, the global economy improved markedly over the course of 2009 and into 2010. Metals prices improved steadily since bottoming in early 2009, and were again well above their long-term trends through most of 2010. Driven by the need to secure the supply of key commodities countries like China have been investing heavily around the world. This trend is causing some countries to rethink the sale of sovereign assets to foreign investors including sovereign wealth funds. Markets such as London's AIM have been hit hard over the last few years with very few new listings in the mining sector. Some markets such as Canada's TSX are recovering faster although the appetite of investors is still confined to commodities such as gold and silver, copper, iron ore and coal. Responding to rising metal prices most mining companies increased their exploration budget in 2010. Metals Economics Group's reports a 2010 exploration budget total of \$11.2 billion. Regionally, Latin America (led by Mexico, Peru, Chile, Brazil, and Argentina) was the top exploration destination in 2010, a position it has held for the better part of two decades, while Canada was the top country overall. Gold was the leading target, attracting more than half the global exploration budget, with copper a distant second. The challenge for companies is to find and develop quality assets, which is becoming more and more difficult as easy to reach deposits are depleting. Those companies that will survive are the ones that will keep pace with change, embracing new ideas and techniques. The impact that the current uncertainty in Europe and elsewhere can have on the mining industry cannot be underestimated. The value of stock markets has continued to fall during the second half of 2011 as uncertainty surrounding the health of the world economy gathers pace. This has led to a significant reduction in the number of resource companies listing on world stock markets and a reduction in available finance to fund exploration and development in the mining sector.

ii) Iron Ore

The iron ore market continues to be dominated by the heavyweights of the iron ore sector with major Australian and Brazilian iron ore producers exploiting their respective iron ore deposits. Rising demand for steel driven primarily by the demand from China, has led to an increase in demand for iron ore, and the resultant increase in iron ore prices has led to it being one of the best performing sectors of recent years. China has been the key driver of iron ore pricing and demand in the current cycle. In 1990 China's seaborne imports were approximately 10Mt. By 2009 China imported 628Mt compared to the Rest of the World being approximately 309M. Despite concerns of Chinese growth slowing, coupled with stagnation in Europe, the supply side continues to struggle to meet demand supporting a favourable iron ore price in the medium term. The price of iron ore fines 62% Fe was approximately \$166 per tonne at the end of September 2011 but has weakened since then to around \$135 on weaker world economic data especially out of China. Higher iron ore prices have led to lower grade iron ore deposits that require beneficiation and large capital expenditures to now be considered economical. Africa represents a promising new source of iron ore to help increase global

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supply. China is currently making significant investment into the African region either through direct investment in African iron ore projects, off-take agreements or financing packages to assist in bringing the projects to fruition.

iii) Capital Markets

Afferro, like many other companies in the mining sector has lost significant value as a result of market volatility. Despite this the Company continues to expand its resource base and progress its key projects. The directors are confident that the implementation of its strategy will generate significant value for shareholders.

**6. INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Given the nature of the business and geographical displacement, management is committed to continuously mitigate any risks and systematically improve operating controls where and when possible in a cost effective manner. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of that system are met. There have been no significant changes in our internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**7. OUTLOOK**

Afferro is focused on developing its highly promising iron ore assets in Cameroon (Nkout) and Liberia (Putu). The key objectives for the remainder of 2011 and first half of 2012 are to:

Cameroon:

- 1) Complete the logistics and infrastructure scoping study at Nkout by December 2011;
- 2) Further increase the estimated mineral resource at Nkout;
- 3) Identify additional amounts of potential DSO material at Nkout;
- 4) Complete the preliminary economic assessment on Nkout by the end of Q1 2012;
- 5) Further explore Ntem and other properties; and
- 6) Complete discussions with strategic investors.

Putu:

- 1) Complete the PFS for the magnetite ore; and
- 2) Complete the drilling programme on potential DSO.

On Behalf of the Board,  
AFFERRO MINING INC.

*(Signed)* LUIS G. CABRITA da SILVA  
LUIS G. CABRITA da SILVA  
President and CEO