

Consolidated Financial Statements

African Aura Mining Inc.
(formerly Mano River Resources Inc.)

For The Year Ended December 31, 2009
(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*

Luis G. Cabrita da Silva

(Signed) *DAVID NETHERWAY, DIRECTOR*

David Netherway

Report of the independent auditors to the Shareholders of African Aura Mining Inc.

Auditors' Report to the Shareholders of African Aura Mining Inc.

We have audited the consolidated balance sheet of African Aura Mining Inc. as at 31 December 2009 and 2008 and the consolidated statement of (loss)/income and other comprehensive (loss)/income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether these consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO LLP

BDO LLP
Chartered Accountants
London, UK
April 20, 2010

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

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Consolidated Balance Sheet

As at December 31, 2009

(Stated in U.S. dollars)

	2009	2008
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,695,796	8,877,906
Accounts receivable (Note 5)	4,414,215	207,044
Inventories (Note 6)	220,826	-
Due from joint venture partner (Note 7)	-	27,495
	8,330,837	9,112,445
Non-current assets		
Investment in associate (Note 8)	7,200,097	8,093,775
Property, plant and equipment (Note 9)	11,499,181	3,896,933
Resource properties (Note 10)	10,059,428	6,330,092
Deferred exploration costs (Note 10)	22,378,268	27,316,442
Total assets	59,467,811	54,749,687
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,288,447	1,148,659
Convertible debentures (Note 12)	3,399,762	-
Interest payable on convertible debentures (Note 12)	120,924	49,928
Embedded derivative (Note 12)	125,388	-
Due to related parties (Note 17)	169,711	149,660
Due to joint venture partner (Note 7)	709,753	824,243
	6,813,985	2,172,490
Non-current liabilities		
Convertible debentures (Note 12)	396,078	2,048,638
Asset retirement obligation (Note 13)	54,369	-
Total liabilities	7,264,432	4,221,128
Shareholders' equity		
Share capital (Notes 15a, 15b)	50,637,085	37,963,124
Contributed surplus (Notes 15c, 15d)	5,292,619	4,488,976
Warrant reserve (Note 15e)	2,808	548,000
Equity component of convertible debentures (Note 12)	2,637,802	2,637,802
Accumulated other comprehensive loss	(21,755)	(21,755)
Deficit	(11,386,831)	(4,098,885)
Non-controlling interest (Note 14)	5,041,651	9,011,297
Total shareholders' equity	52,203,379	50,528,559
Total liabilities, non-controlling interest and shareholders' equity	59,467,811	54,749,687

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 on April 20, 2010

(Signed) LUIS G. CABRITA da SILVA, DIRECTOR

Luis G. Cabrita da Silva

(Signed) DAVID NETHERWAY, DIRECTOR

David Netherway

African Aura Mining Inc. (formerly Mano River Resources Inc.)
Consolidated Statements of (Loss)/Income and Comprehensive (Loss)/Income
For the year ended December 31, 2009
(Stated in U.S. dollars)

	2009	2008
	\$	\$
Revenues		
Net sales (Note 18)	1,179,004	-
Operating expenses		
Depreciation, depletion and amortization (Note 9)	741,362	-
Other operating expenses	1,972,313	-
Gross loss	(1,534,671)	-
Expenses		
Administrative and office expenses	1,349,718	1,044,292
Directors' fees	297,445	297,409
Foreign exchange loss	42,816	304,215
Management fees	462,580	658,314
Interest on convertible debentures (Note 12)	1,206,266	983,242
Professional fees	1,431,128	1,938,650
Stock-based compensation (Notes 15c, 15d)	722,489	1,455,625
Transfer agent and filing fees	108,790	79,229
Project impairment (Note 10)	7,756,846	11,250,591
Depreciation (Note 9)	413,250	44,289
	(13,791,328)	(18,055,856)
Dilution gain on shares issued by controlled company (Note 14)	-	7,157,964
Gain on disposal of SLIO (Note 8)	3,076,366	7,762,899
Loss on disposal of equipment	(26,779)	-
Unrealised foreign exchange (loss)/gain on convertible debentures (Note 12)	(205,309)	831,873
Share in results of associate (Note 8)	196,623	-
Interest income (Note 18)	2,676	74,484
Loss for the year	(12,282,422)	(2,228,636)
Other comprehensive income		
Expired warrants (Note 15e)	548,000	-
Total comprehensive loss	(11,734,422)	(2,228,636)
(Loss)/Income for the year		
Attributable to:		
Owners of the parent	(7,739,218)	1,841,014
Non-controlling interest	(4,543,204)	(4,069,650)
	(12,282,422)	(2,228,636)
Total comprehensive (loss)/income		
Attributable to:		
Owners of the parent	(7,287,946)	1,841,014
Non-controlling interest	(4,446,476)	(4,069,650)
	(11,734,422)	(2,228,636)
Basic and diluted (loss)/income per share	(0.182)	0.048
Weighted average number of shares outstanding	42,574,271	38,708,593

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

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Consolidated Statement of Cash Flow

For the year ended December 31, 2009

(Stated in U.S. dollars)

	2009	2008
	\$	\$
Operating Activities		
Loss for the year	(12,282,422)	(2,228,636)
Items not involving cash:		
Dilution gain on shares issued by controlled company	-	(7,157,964)
Gain on disposal of Severstal Liberia Iron Ore Ltd. (SLIO)	(3,076,366)	(7,762,899)
Loss on disposal of equipment	26,779	-
Share in results of associate	(196,623)	-
Stock-based compensation	722,489	1,455,625
Interest income	(2,676)	(74,484)
Interest on convertible debentures	1,206,266	983,242
Unrealised foreign exchange loss/(gain) on convertible debentures	205,309	(831,873)
Unrealised foreign exchange loss/(gain)	152,881	(90,730)
Project impairment	7,756,846	11,250,591
Depreciation of property, plant and equipment	1,154,612	44,289
Changes in working capital:		
Accounts receivable	65,017	174,333
Inventories	(220,826)	-
Accounts payable and accrued liabilities	839,567	2,794,397
	(3,649,147)	(1,444,109)
Investing Activities		
Acquisition of subsidiary (Note 4)	3,731,881	-
Deferred exploration costs	(5,305,617)	(10,402,580)
Interest income	2,676	74,484
Net proceeds on sale of SLIO	-	8,333,333
Purchase of property, plant and equipment	(386,337)	(1,990,279)
	(1,957,397)	(3,985,042)
Financing Activities		
Issuance of share capital (net of costs)	(17,187)	3,915,010
Proceeds from issue of convertible debentures (Note 12)	853,161	-
Cash disposed of on consolidation of subsidiary	-	(585,768)
Proceeds from issue of shares of subsidiary	-	7,311,665
Interest paid on convertible debentures	(321,150)	(494,837)
Due to/(from) related parties	20,051	(24,707)
	534,875	10,121,363
Impact of foreign exchange on cash balance	(110,441)	85,507
Net cash (outflow)/inflow	(5,182,110)	(539,300)
Cash, Beginning of the year	8,877,906	4,100,187
Cash, End of the year	3,695,796	8,877,906

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

Significant non-cash transactions relating to the acquisition of a subsidiary and expiry of share purchase warrants are disclosed in notes 4 and 15e, respectively.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Consolidated Statement of Shareholders' Equity

For the year ended December 31, 2009

(Stated in U.S. dollars)

	Common shares		Contributed surplus	Warrant reserve	Equity component of convertible debentures	Deficit accumulated in the development stage	Accumulated other comprehensive deficit	Non-controlling interest	Total shareholders' equity
	Number	Amount							
		\$	\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2008	37,226,376	34,596,114	3,181,412	-	2,637,802	(5,939,899)	(21,755)	7,147,317	41,600,991
Income/(loss) for the year and Total comprehensive income/(loss)	-	-	-	-	-	1,841,014	-	(4,069,650)	(2,228,636)
Shares issued on private placement	2,500,000	3,367,010	-	548,000	-	-	-	7,363,367	11,278,377
Stock-based compensation	-	-	1,455,625	-	-	-	-	-	1,455,625
Non-controlling interest in stock-based compensation	-	-	(148,061)	-	-	-	-	148,061	-
Dilution gain	-	-	-	-	-	-	-	(1,231,793)	(1,231,793)
Disposal of subsidiary	-	-	-	-	-	-	-	(346,005)	(346,005)
Balance at December 31, 2008	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)
Expired warrants (Note 15e)	-	-	-	(548,000)	-	548,000	-	-	-
Dilution loss	-	-	-	-	-	(96,728)	-	96,728	-
Total comprehensive loss	-	-	-	(548,000)	-	(7,287,946)	-	(4,446,476)	(12,282,422)
Issued on acquisition (Note 4)	13,158,080	12,691,148	524,518	2,808	-	-	-	-	13,218,474
Shares issued	-	-	-	-	-	-	-	321,213	321,213
Share issuance costs	-	(17,187)	-	-	-	-	-	-	(17,187)
Stock-based compensation	-	-	434,742	-	-	-	-	-	434,742
Non-controlling interest in stock-based compensation	-	-	(155,617)	-	-	-	-	155,617	-
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

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

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(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, iron ore and diamond properties. The Company changed its name from Mano River Resources Inc. on October 13, 2009, the day it completed its acquisition of African Aura Resources Limited as further discussed in Note 4.

Although the Mandala alluvial diamond project entered commercial production in April 2009, the Company is still predominantly in the development stage. Apart from the cash generated from Mandala during the year, the Company has no other source of cash flows other than loans from related parties, convertible debentures or equity offerings and anticipates further operating losses as exploration continues across its property portfolio. As discussed in Note 21, the Company's share in Stellar Diamonds Limited, which operates and owns 100% of the Mandala project, has been diluted to 31.8% subsequent to year end.

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. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional finance in the future. If the Company cannot obtain additional finance in the future it may be forced to realise its assets at amounts significantly lower than the current carrying value. At December 31, 2009 the Company had cash and cash equivalents of \$3.7 million in hand. However, in order to progress its key projects and to have sufficient funds to finance general overhead costs during 2010 the Company will need to raise additional funds. With this in mind a fund raising, through a private stock placement, has just been completed (subject to regulatory approvals and the admission of the stock to trading on AIM and TSX-V) and the Company is pleased to advise that it has raised approximately £11.3 million (\$17.5 million), principally to fund the New Liberty Gold Mine, Nkout and Weaju projects. No funds were raised for Putu Iron Ore project as arrangements are in place to finance Putu towards a pre-feasibility study.

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

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada and reflect the following significant accounting policies. 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. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(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. (formerly Mano River Resources Ltd.), Mano River Iron Ore Holdings Ltd. ("MARIOH") and Mano Diamonds Ltd. As discussed in Note 4, MANAAR limited, a wholly-owned subsidiary of the Company, acquired African Aura Resources Limited on October 13, 2009. Subsequently, African Aura Mining Inc. and MANAAR Limited were amalgamated under the laws of British Columbia. The group companies are set out below:

Company	Place of incorporation	Percentage ownership
Mano Gold Investments Limited (formerly Mano River Resources Limited) and its subsidiaries:	Tortola, British Virgin Islands	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%
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%
North West Minerals Ltd. *	Mahe, Republic of Seychelles	100.0%
Mano Gold (Liberia) Ltd. (formerly Lofa Goldiam, Inc.) and its subsidiary:	Tortola, British Virgin Islands	100.0%
Bea Mountain Mining Corporation	Monrovia, Liberia	100.0%
Mano Diamonds Limited and its subsidiaries:	Tortola, British Virgin Islands	100.0%
Friendship Diamonds Guinée S.A.	Conakry, Guinea	100.0%
Stellar Diamonds Limited and its subsidiaries:	Guernsey	58.4%
Diamants du Congo Oriental Ltd. *	Tortola, British Virgin Islands	100.0%
Western Mineral Resources Corporation Inc. and its subsidiary *:	Tortola, British Virgin Islands	100.0%
Western Mineral Resources Corp. (Liberia) *	Monrovia, Liberia	100.0%
Alpha Minerals Inc. *	Monrovia, Liberia	100.0%
Weasua Diamonds Ltd and its subsidiary *:	Mahe, Republic of Seychelles	50.0%
Kpo Resources Inc.	Monrovia, Liberia	100.0%
Mano Diamonds (Liberia) Inc. *	Monrovia, Liberia	100.0%
Basama Diamonds Ltd and its branch:	Mahe, Republic of Seychelles	49.0%
Basama Diamond Ltd Sierra Leone Branch	Freetown, Sierra Leone	100.0%
Sierra Diamonds Limited and its branch:	Tortola, British Virgin Islands	100.0%
Sierra Leone Diamonds Limited Sierra Leone Branch	Freetown, Sierra Leone	100.0%
Mano Diamonds Sierra Leone Ltd. *	Freetown, Sierra Leone	100.0%
Guinean Diamond Corporation Ltd. and its subsidiaries:	Mahe, Republic of Seychelles	100.0%
Mano River Diamants Guinee S.A.	Conakry, Guinea	100.0%
Resources Mandala Guinée S.A. R.L.	Conakry, Guinea	100.0%
East Sierra Diamonds Ltd and its branch *:	Mahe, Republic of Seychelles	100.0%
East Sierra Diamonds Ltd. Sierra Leone Branch *	Freetown, Sierra Leone	100.0%
Mano River Iron Ore Holdings Ltd. and its associate:	Mahe, Republic of Seychelles	100.0%
Severstal Liberia Iron Ore Ltd. and its subsidiary:	Tortola, British Virgin Islands	38.5%
Putu Iron Ore Mining Inc.	Monrovia, Liberia	38.5%
Mano River Resources Inc. (UK Branch)	United Kingdom	100.0%

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

Company	Place of incorporation	Percentage ownership
Subsidiaries acquired as part of African Aura Resources Limited:		
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%
African Aura Resources Cameroon SARL	Cameroon	100.0%
Cameroon SARL *	Cameroon	100.0%
Caminex SARL *	Cameroon	100.0%
Caminur SARL *	Cameroon	100.0%
Fermont Mining Ltd *	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 (UK) Limited	United Kingdom	100.0%
African Aura Resources (ZIM) SARL *	Mahe, Republic of Seychelles	100.0%
Fermont Mining Ltd *	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%

* Dormant companies

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% on December 2008 and subsequently to 38.5% on December 2009 (see Note 8). SLIO is accounted for as an investment in associate in the balance sheet.

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)/income. 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.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

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, 2009 the Company does not hold an interest in any VIEs.

All intercompany balances and transactions have been eliminated upon consolidation.

(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. Following the adoption of Section 1602, *Non-Controlling Interests*, as set out in Note 3(r) dilution gains or losses are treated as a capital transaction and recognised directly in equity. Dilution gain or loss arising in earlier years was recognised in the consolidated statement of loss.

(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. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(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 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. Management reviews these factors and considers whether any other events or circumstances indicate that the carrying amount of an asset may not be recoverable. If there is an indication that the carrying amount may not be recoverable future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted estimated future cash flow is less than the carrying amount of the asset, impairment is recognised and charged to the consolidated statement of (loss)/income.

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.

(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 the valuation of the consideration paid to acquire African Aura Resources Limited and of the assets and liabilities acquired, the carrying value of Company's investment in associate, resource properties, deferred exploration costs, asset retirement obligations, future income tax, stock-based compensation, 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.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(i) ***(Loss)/Income per share***

The basic (loss)/income per share is computed by dividing the (loss)/income and comprehensive (loss)/income by the weighted average number of common shares outstanding during the year. The diluted (loss)/income 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, African Aura Resources Limited and African Aura Resources (UK) Limited which have a functional currency of Pounds Sterling and African Aura Resources 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)/income.

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)/income.

(k) ***Stock-based compensation***

The Company follows Canadian Institute of Chartered Accountants Handbook 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)/income, 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.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(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)/income and the statements of shareholders' equity. Amounts previously recorded in "cumulative translation adjustment" have been reclassified to "accumulated other comprehensive income".

(o) **Asset retirement obligations**

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 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. As at December 31, 2009 the Company has recognised a retirement obligation on the Mandala mine of \$54,369.

(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)/income. 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 are classified as held-for-trading;
- Accounts receivables, due from joint venture partners are classified as "loans and receivables" and are measured at amortized cost using the effective interest rate method. At December 31, 2009 and 2008 the recorded amount approximates fair value;
- Accounts payable, due to related parties, due to joint venture partners, 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, 2009 and 2008 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)/income and has been discussed in detail in Note 12.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

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)/income.

(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.

(r) Adoption of new accounting standards and accounting pronouncements

Accounting changes

- (i) In May 2007, the CICA issued Section 3031, *Inventories*, which superseded Handbook Section 3030 to converge Canadian standards with International Accounting Standards 2, *Inventories*. This standard requires: that inventories be measured at the lower of cost and net realizable value; that the allocation of overhead be based on normal capacity; the use of the specific cost method for inventories that are not normally interchangeable or goods and services produced for specific purposes; the use of a consistent cost formula for inventory of a similar nature and use; and the reversal of previous write-downs of inventory to net realizable value, when there is a subsequent increase in the value of inventories. Disclosure requirements include the Company's policies, carrying amounts, amounts recognized as an expense, write-downs and subsequent reversal of write-downs. This standard was effective on January 1, 2008 but has only been applied during 2009 when the Company started to incur costs in respect of inventories.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

- (ii) In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets* which replaced Section 3062, *Goodwill and Other Intangible Assets*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets for profit-oriented enterprises. This standard was effective for the Company on January 1, 2009.
- (iii) In January 2009, the Emerging Issues Committee issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The Committee concluded that an entity's credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.
- (iv) In March 2009, the Emerging Issues Committee issued EIC-174, *Mining Exploration Costs*, which provides guidance on the capitalization of exploration costs related to mining properties and the impairment review of such capitalized exploration costs. This EIC was effective for the Company on January 1, 2009.
- (v) In May 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures*, which requires additional disclosure of fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements (Level 1, Level 2 and Level 3 inputs as defined in the standard). The amendments are applicable for years ending after September 30, 2009.
- (vi) In August 2009, the CICA issued certain amendments to Section 3251, *Equity*. The amendments apply to entities that have adopted Section 1602, *Non-controlling interests*. The amendments require separate presentation on the statements of operations and comprehensive income of income attributable to owners of the Company and those attributable to non-controlling interests. The amendments also require that non-controlling interests be presented separately as a component of equity. As the Company has not adopted section 1602, which is not mandatory until the year beginning January 1, 2011, the amendments are not applicable to the Company in the interim and there is no impact to the financial statements for the year ended December 31, 2009.

The adoption of the above standards had no impact on the Company's financial statements, except for Section 3031, *Inventories*, as stated above.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

Early adoption of accounting standards

- (i) The Company elected to adopt Section 1582, *Business Combinations* in advance of its effective date of January 1, 2011. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. 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)/income.
- (ii) Additionally, as part of the application of Section 1582, the Company also adopted Section 1601 *Consolidated Financial Statements* and Section 1602 *Non-controlling interests*. The adoption of these sections 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.

Recent pronouncements

- (i) The Canadian Accounting Standards Board has confirmed January 1, 2011 as the date that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises. As a result, the Company will report under IFRS for interim and annual periods beginning January 1, 2011, with comparative information for 2010 restated under IFRS. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices and could materially impact our reported financial position and results of operations.

4. Acquisition of African Aura Resources Limited ("AAR")

On October 13, 2009, MANAAR Limited, a wholly-owned subsidiary of the Company completed its merger with AAR under the corporate laws of the British Virgin Islands effectively acquiring 100% of the issued share capital of AAR for a consideration comprising the issue of 1.57 common shares of the Company for each share in AAR. The total number of shares issued was 105,264,638 at a fair value of 7.625 pence sterling per share, the total fair value of the shares issued is therefore \$12,691,148. In addition, the options and warrants outstanding over the shares of AAR were replaced with options and warrants over shares of the Company. This resulted in the issue of 794,806 share options and 1,500,788 warrants, the fair values of which are presented in the table below. The fair value of shares issued as part of consideration paid was determined on the Company's share price in AIM on the acquisition date.

Acquisition-related costs included in professional fees in the consolidated statement of (loss)/income amounted to \$755,894.

The acquisition was accounted for in accordance with Section 1582, *Business Combinations*, which was early adopted during the year.

Subsequently, the Company consolidated its enlarged issued share capital on a 1 new share for 8 existing shares basis and changed its name from Mano River Resources Inc. to African Aura Mining Inc.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

4. Acquisition of African Aura Resources Limited ("AAR") (continued)

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

	Fair value
	\$
Current assets	
Cash and cash equivalents	3,731,881
Accounts receivable	105,521
	<u>3,837,402</u>
Non-current assets	
Property, plant and equipment (Note 9)	882,331
Resource properties and Deferred exploration costs (Note 10)	8,832,428
	<u>9,714,759</u>
Total assets acquired	<u>13,552,161</u>
Current liabilities	
Accounts payable and accrued liabilities	333,687
Total liabilities assumed	<u>333,687</u>
Net assets acquired	<u>13,218,474</u>
Satisfied by:	
Shares issued (Note 15b)	12,691,148
Options issued (Note 15c)	524,518
Warrants issued (Note 15e)	2,808
	<u>13,218,474</u>

The net cash inflow arising on the acquisition amounted to \$3,731,881 relating to the cash acquired.

The results of AAR are included within the consolidated statement of (loss)/income from the date of acquisition. AAR contributed \$47,131 to the Company's net loss for the period between the date of acquisition and the balance sheet date. It is impracticable to account for the profit and loss of the combined entity as though the acquisition date had been at the beginning of the year as AAR prepared its financial statements in accordance with IFRS.

The directors of the Company recognise the value that can be created for the shareholders by capitalising on the multiple corporate, operational and project synergies which exist between the two companies, as well as diversifying project and geographic risks.

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Notes to the Consolidated Financial Statements

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(Stated in U.S. dollars)

5. Accounts receivable

	2009	2008
	\$	\$
Receivable from Severstal (Note 8)	4,166,667	-
Other receivables	247,548	207,044
	<u>4,414,215</u>	<u>207,044</u>

6. Inventories

	2009	2008
	\$	\$
Diamonds	195,072	-
Fuel	25,754	-
	<u>220,826</u>	<u>-</u>

Fuel inventories are carried at cost. Diamonds are carried at net realisable value.

The movement in inventories for the year resulted in a credit of \$220,826 to the consolidated statement of (loss)/income.

7. Due to/from joint venture partners

The amount owing to Petra Diamonds Limited, in respect of the Kono joint venture diamond project in Sierra Leone, is \$709,753, inclusive of \$20,065 accrued interest as at December 31, 2009 (2008: \$717,640). During the year, accrued interest of \$24,358 was paid and accrued interest of \$26,406 was written off by Petra Diamonds Limited. The outstanding loan balance accrues interest at a rate of interest based on six month US\$ LIBOR rate plus 5%. During the year ended December 31, 2009, the Company incurred total interest expenses of \$42,877 (2008: \$36,558) in relation to this loan. The outstanding balance was paid on February 25, 2010.

The amount owing to Kpo Resources Inc., the joint venture entity of a diamond project in Liberia, is \$nil as at December 31, 2009 (2008; \$106,603).

As at December 31, 2009 the amount due from joint venture partners amounted to nil (2008: \$27,495).

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

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8. Investments in associate

During the year ended December 31, 2008, African Aura entered into an agreement (The SPSA) with OAO Severstal Resources. The SPSA provided for the acquisition by an indirect wholly-owned subsidiary of Severstal of 25% of the issued and outstanding shares of Severstal Liberia Iron Ore ("SLIO") for \$12.5 million from MARIOH and of a further 20% of the issued and outstanding shares of SLIO from the minority interest parties in SLIO, for \$10.0 million. It also provided for the subscription by Severstal for new ordinary shares in SLIO for an aggregate price of \$15.0 million. These acquisitions and the subscription give the indirectly wholly-owned Severstal subsidiary a 61.5% stake in SLIO on completion of the SPSA.

During the year ended December 31, 2008 Severstal completed the acquisition of a total 16.67% of the SLIO shares from MARIOH and 13.33% of the shares from the minority interests as well as the \$15 million subscription for an additional 30% of SLIO. The consideration in respect of the acquisition of the remaining third of the shares to be acquired, amounting to \$4.2 million due to the Company payable at the discretion of Severstal. As a result the Company's shareholding in SLIO had reduced to 44.33%, as at December 31, 2008.

During the year ended December 31, 2009, the Company recognized a receivable in respect of the consideration of \$4.2 million related and pursuant to the SPSA and disposal of 5.83% of the Company's shareholding in SLIO.

The amount of \$4.2 million is payable on or before December 2010 and has been confirmed as payable by Severstal. At December 31, 2009 the Company therefore holds 38.5% (2008: 44.33%) of the issued share capital of SLIO and accounts for its interest in SLIO as an investment in associate in the consolidated balance sheet. SLIO operates the Putu iron ore project in Liberia.

The gain on disposal of the 5.83% of SLIO recognised during the year and included in gain on sale of assets in the consolidated statement of (loss)/income is set out below.

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

The movement in the Company's investment in SLIO during the year is detailed below:

	2009
	\$
Opening balance	8,093,775
Share in result of associate	196,623
Disposal	(1,090,301)
Closing balance	<u>7,200,097</u>

The Group's share in the result of the associate is recorded in the consolidated statement of (loss)/income.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

8. Investments in associate (continued)

Equity value of investment

	2009	2008
	\$	\$
Net assets in SLIO	18,701,552	18,257,984
Interest held in share capital	38.50%	44.33%
Equity value of investment in associate	7,200,097	8,093,775

9. Property, plant and equipment

	Mining assets	Assets under construction	Machinery and equipment	Total
	\$	\$	\$	\$
Cost				
At January 1, 2009	-	3,793,388	501,149	4,294,537
Additions	-	50,271	336,066	386,337
Acquired on acquisition of AAR (Note 4)	-	-	882,331	882,331
Asset retirement cost (Note 13)	54,369	-	-	54,369
Transfer from resource properties and deferred exploration (Note 10)	7,503,042	-	-	7,503,042
Transfers	3,134,872	(3,843,659)	708,787	-
Disposals	-	-	(40,101)	(40,101)
At December 31, 2009	10,692,283	-	2,388,232	13,080,515
Depreciation				
At January 1, 2009	-	-	397,604	397,604
Charge for the year	741,362	-	413,250	1,154,612
Foreign exchange difference	-	-	42,440	42,440
Disposals	-	-	(13,322)	(13,322)
At December 31, 2009	741,362	-	839,972	1,581,334
Net book value				
At December 31, 2008	-	3,793,388	103,545	3,896,933
At December 31, 2009	9,950,921	-	1,548,260	11,499,181

Assets under construction recognised as at December 31, 2008 are the plant and related equipment at Stellar's Mandala diamond operation in Guinea. These assets, as well as, resource properties and deferred exploration costs relating to Mandala (Note 10) have been transferred to mining assets in April 2009 to coincide with the commencement of production.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

10. Resource properties and deferred exploration costs

	January 1, 2009 \$	Acquisition (Note 4) \$	Transfer to mining assets (Note 9) \$	Impairment \$	December 31, 2009 \$
Resources properties:					
Liberia					
Bea	210,000	-	-	-	210,000
North Bea	-	2,457,767	-	-	2,457,767
	210,000	2,457,767	-	-	2,667,767
Cameroon					
Batouri	-	4,091,266	-	-	4,091,266
Djoum	-	1,159,105	-	-	1,159,105
Ntem	-	629,073	-	-	629,073
Akonolinga	-	480,920	-	-	480,920
Ekomedion/Mbanga	-	14,297	-	-	14,297
	-	6,374,661	-	-	6,374,661
Sierra Leone					
Sonfon	1,017,000	-	-	-	1,017,000
Nimini	169,500	-	-	(169,500)	-
	1,186,500	-	-	(169,500)	1,017,000
Guinea					
Mandala	4,933,592	-	(4,933,592)	-	-
	6,330,092	8,832,428	(4,933,592)	(169,500)	10,059,428

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

10. Resource properties and deferred exploration costs (continued)

	January 1, 2009 \$	Additions (Note 4) \$	Transfer to mining assets (Note 9) \$	Impairment \$	December 31, 2009 \$
Deferred exploration costs:					
Liberia					
Bea	13,756,539	3,239,909	-	-	16,996,448
Weaju	742,268	15,330	-	-	757,598
Gondoja	34,348	-	-	-	34,348
MEA	60,545	-	-	(60,545)	-
North Bea	-	39,653	-	-	39,653
Silver Hills	-	3,009	-	-	3,009
MCA	-	15,969	-	(15,969)	-
Kpo	-	(85,428)	-	85,428	-
	<u>14,593,700</u>	<u>3,228,442</u>	<u>-</u>	<u>8,914</u>	<u>17,831,056</u>
Cameroon					
Batouri	-	330,158	-	-	330,158
Ntem	-	8,280	-	-	8,280
Akonolinga	-	906	-	-	906
Djourn	-	4,339	-	-	4,339
Ekomedion/Mbanga	-	24,322	-	-	24,322
	<u>-</u>	<u>368,005</u>	<u>-</u>	<u>-</u>	<u>368,005</u>
Sierra Leone					
Kono	7,979,870	939,324	-	(7,000,000)	1,919,194
Sonfon	1,190,080	12,013	-	-	1,202,093
Nimini	134,574	14,894	-	(149,468)	-
Tongo	682,836	19,524	-	-	702,360
	<u>9,987,360</u>	<u>985,755</u>	<u>-</u>	<u>(7,149,468)</u>	<u>3,823,647</u>
Guinea					
Bouro	180,995	-	-	-	180,995
Druzhba and ex De Beers	159,289	-	-	-	159,289
Ouria	5,532	9,744	-	-	15,276
Mandala	1,959,539	609,911	(2,569,450)	-	-
	<u>2,305,355</u>	<u>619,655</u>	<u>(2,569,450)</u>	<u>-</u>	<u>355,560</u>
Democratic Republic of Congo					
REMEC	430,027	16,765	-	(446,792)	-
	<u>27,316,442</u>	<u>5,218,622</u>	<u>(2,569,450)</u>	<u>(7,587,346)</u>	<u>22,378,268</u>

The Bea licence includes the New Liberty Gold Mine project and the Djourn licence includes the Nkout iron ore prospect.

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Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

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10. Resource properties and deferred exploration costs (continued)

	2009	2008
	\$	\$
Deferred exploration costs		
Feasibility	-	51
Assays incl. shipment	18,997	251,754
Communications incl. equipment	34,420	120,395
Community relations	212,540	151,103
Consultants and professional fees	883,387	1,393,596
Data, images, reports and maps	9,511	-
Drilling	1,007,695	1,886,828
Infrastructure incl. roads and bridges	195,288	86,475
Licenses and permit fees	123,887	186,981
Project/field office costs, incl. field equipment	397,365	435,764
Salaries and wages	1,047,156	2,450,656
Subsistence	75,977	168,490
Transportation incl. vehicles	358,509	438,089
Net Trans-Hex JV expenditure	(85,428)	91,658
Kono (Petra) joint venture	939,318	2,740,740
Net expenditure during the year	5,218,622	10,402,580
Recovery relating to the sale of mineral property on consolidation of Stellar	-	1,084,825
Expenditure removed on non consolidation of SLIO	-	(4,312,097)
Write off of project expenditure and impairment provision	(7,587,346)	(9,776,916)
Transfer Mandala to property, plant and equipment	(2,569,450)	-
Balance, Beginning of the year	27,316,442	29,918,050
Balance, End of the year	22,378,268	27,316,442

African Aura Mining Inc. (formerly Mano River Resources Inc.)

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10. Resource properties and deferred exploration costs (continued)

Impairment

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 and certain projects where there was a reasonable probability that the carrying value of the project exceeded its fair value for which an impairment was recognised. The total impairment charge recorded in the consolidated statement of (loss)/income during 2009 is \$7,756,846.

Kono

Due to weak diamond prices in the rough diamond market, management made the decision during the year to suspend operations and place the Kono project under temporary care and maintenance until diamond prices recover. In line with the strategy to maintain Kono on care and maintenance, the Company assessed the recoverable amount of the exploration costs and resource properties relating to the asset and determined that it was impaired by \$7,000,000.

REMEC

In April 2009 it was agreed with REMEC to terminate the joint venture as it was not seen as an economically viable diamond project. The costs related to this project of \$446,792 were written off during the year.

Nimini

The licence to the Nimini project expired during the year and accordingly costs related to the project of \$318,968 were written off during the year.

MEA

The MEA project was also deemed to be uneconomic and related costs of \$60,545 were written off during the year.

The write-offs in respect of these projects are included within the impairment charge shown in the consolidated statement of (loss)/income.

Some of the projects that remain and have not been impaired are early stage speculative mining projects, the carrying value of these is not supported by future estimated cash flows (with the exception of Bea) but management do not believe there to be any indication of impairment.

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11. 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 mine in a 457 km² area which encompasses the New Liberty Gold Project.

The Company acquired a Mineral Exploration Agreement ("MEA") licence on May 18, 2005, which is valid for five years over the Putu iron ore prospect in eastern Liberia. The licence rights were extended until September 2010. Negotiations to obtain an MDA are on-going with the Government of Liberia. Severstal acquired a majority interest in the Putu iron ore project in December 2008 as explained in Note 8.

The Company has a MEA licence at North Bea to mine for gold and associated minerals for an area of 200 km² in Western Liberia.

(b) Sierra Leone, West Africa

The Company holds prospecting licences for diamonds and gold in Sierra Leone. The licences are located throughout the eastern and northern provinces of the country.

(i) Petra Diamonds Joint Venture (Kono/Nimini)

On September 10, 2004, the Company and Petra Diamonds Limited ("Petra") entered into a joint venture for the production of diamonds from the underground mining of diamond-bearing kimberlite dykes (the "Lion" dykes) defined within Africa Aura's three contiguous licence areas (Yengema, Njaiama and Nimini South) in the Kono diamond district of Sierra Leone.

Under the terms of the agreement Petra earned a 51% interest in Basama Diamonds Ltd by spending \$3 million over three years.

From 1 January 2009 Stellar elected to sole fund and operate the Kono project and planned to reinvest all diamond revenues in the continued development of the project. Petra did not opt to reimburse Stellar for its share in the costs incurred during 2009 and together with Stellar's payment of the amount due to Petra in February 2010 resulted to the dilution of Petra's interest in the joint venture to 45%. Stellar and Petra are currently in negotiations with respect to acquiring Petra's remaining interest in the Kono.

This project was put on care and maintenance in May 2009 due to poor diamond market conditions. Resumption of trial mining is expected once diamond conditions have improved sufficiently.

(ii) Golden Star Joint Venture

On November 24, 2003, the Company signed a comprehensive letter of agreement ("LoA") with Golden Star Resources Ltd. ("GSR"), which contains all the main terms of a joint venture covering licence packages in Sierra Leone.

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Notes to the Consolidated Financial Statements

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(Stated in U.S. dollars)

11. Joint ventures and Project agreements (continued)

GSR earned a beneficial interest of 51% in the gold rights of the licences currently held by African Aura through its subsidiary, Golden Leo Resources Limited after spending the minimum expenditure limits under the terms of the LoA.

Under the agreement African Aura has the right to elect to contribute pro-rata to the feasibility study (FS) to retain a 49% interest. If African Aura decides not to elect to contribute GSR may sole fund the FS to earn a further 14% interest, thereby taking its joint venture interest to 65%.

Upon completion of a positive FS on Sonfon, GSR may elect to proceed to mine development. African Aura has the right to contribute pro-rata to any mine development to retain its 49% interest or dilute to either a 15% or 29% free carried interest depending on its earlier elections to co-fund the FS and mine construction. African Aura will also retain a 2% net smelter royalty on production in excess of the first 1 million ounces of gold from the project.

Under a separate agreement dated May 2002, the Sonfon licence was joint ventured by the Company to its partner Nyota Minerals Limited (previously Dwyka Resources) in a 50:50 joint venture basis. Nyota Minerals Limited retains a 50% interest in African Aura's share of the project.

(c) Guinea, West Africa

The Mandala project is 100% owned by Stellar and comprises two alluvial mining concessions in the south east of Guinea. Mandala is now in production following the successful commissioning of the plant on April 20, 2009. The project comprises an independently verified measured and indicated resource of 676,000 carats of diamonds (NI 43-101 compliant).

(d) 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 and gold in southern Cameroon.
- (iii) The Akonolinga licence covers an area of 996 km² and targets gold and iron ore in southern Cameroon.
- (iv) The Ntem licence covers an area of 987 km² and targets gold and iron ore in southern Cameroon.
- (v) The Ekomedion and Mbanga licences are held by the Company's 70% owned subsidiary Ridgeway Energy Limited and covers an area of 992 km² and 1,000 km² respectively. These licences targets uranium and rare element in northern Cameroon.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

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11. Joint ventures and Project agreements (continued)

(e) *Democratic Republic of Congo*

In April 2009 the Company agreed with REMEC to terminate its joint venture in DRC.

12. Convertible debentures

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

	2009 \$	2008 \$
Opening balance	2,048,638	2,260,738
Fair value accretion	781,212	619,773
Unrealised foreign currency exchange loss/(gain)	205,309	(831,873)
Net proceeds from issue of Stellar convertible loan notes	727,773	-
Fair value accretion on Stellar convertible loan notes	32,908	-
Closing balance	3,795,840	2,048,638
Included in current liabilities	3,399,762	-
Included in non-current liabilities	396,078	2,048,638
	3,795,840	2,048,638

(a) *Convertible debentures issued by the Company*

On September 27, 2007 the Company issued unsecured convertible debentures to raise £2.3 million (\$4.6 million). The convertible debentures are repayable on August 1, 2010 and bear interest at 9% per annum. The principal amount is convertible by the holders into common shares of the Company (2,053,571 shares) at a conversion price of £1.12 per share at any time prior to maturity. If prior to the maturity date, the daily volume weighted average trading price of the Company's common shares on AIM, or such other stock exchange where the majority of the Company's trading volume occurs, is greater than £1.456 per share (or equivalent), for any period of 21 consecutive trading days, the Company shall have the right at its sole option to provide notice to the holder and thereafter the debentures will be automatically converted to common shares.

As the debentures are convertible into common shares at the option of the holder, they have been 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 with the following assumptions: no dividends were paid, a weighted average volatility of the Company's share price in TSX-V of 172%, a weighted average annual risk free rate of 4.64% and an expected life of three years. 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.

During the year ended December 31, 2009 the total interest expense charged to the consolidated statement of (loss)/income for the above convertible debentures is \$1,101,474 (2008: \$983,242) including the accretion of the loan to its future value. Interest has been paid up to November 1, 2009 and therefore an accrual of \$49,040 is included at December 31, 2009 (2008: \$49,928). Included in the consolidated statement of (loss)/income for the year ended December 31, 2009 is \$205,309 recognised as an unrealised foreign currency exchange rate loss (2008: gain of \$831,873).

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

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(Stated in U.S. dollars)

12. Convertible debentures (continued)

(b) Convertible debentures issued by Stellar

On May 1, 2009, the Stellar issued convertible debentures (secured on Mandala mining assets) and raised \$574,991, inclusive of \$200,000 contributed by African Aura which was eliminated on consolidation. The notes bear interest of 20% per annum. The principal amount is convertible by the holders into common shares of Stellar at a conversion price of £0.20 per share at any time prior to maturity. Subject to the lender converting their loan and interest for equity, a warrant will be issued for every share received at a conversion price of £0.25 per share and expiring on June 30, 2010. The convertible debentures and the related accrued interest were converted to Stellar shares in February 2010.

As the conversion option is 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.

The embedded derivative is separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date the embedded derivative is measured at fair value with changes in fair value recognised in the consolidated statement of (loss)/income as they arise. The embedded derivative is revalued at each reporting date using market based inputs. The embedded derivative (\$37,535) and host contract (\$337,456), net of the amount eliminated on consolidation and accrued interest) are presented under separate headings in the consolidated balance sheet.

The interest charged for the year is calculated by applying an effective interest rate of 30% to the liability component, to accrete the loan up to the full value of the consideration received.

On September 21, 2009, Stellar issued convertible debentures (secured on Mandala mining assets) and raised £300,000 (\$478,170). The notes are repayable on January 21, 2011 and bear interest of 16.5% per annum. 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.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

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12. Convertible debentures (continued)

The embedded derivative is separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date the embedded derivative is measured at fair value with changes in fair value recognised in the consolidated statement of (loss)/income as they arise. The embedded derivative is revalued at each reporting date using market based inputs. The embedded derivative (\$87,853) and host contract (\$390,317), net of the amount eliminated on consolidation and accrued interest) are presented under separate headings in the consolidated balance sheet.

The interest charged for the year is calculated by applying an effective interest rate of 31.4% to the liability component, to accrete the loan value up to the full value of the consideration received.

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

	2009	2008
	\$	\$
Opening balance	-	-
Proceeds from issue of convertible loan notes	853,161	-
Fair value accretion	32,908	-
Closing balance	<u>886,069</u>	<u>-</u>
Presented in the consolidated balance sheet as:		
Current portion of convertible debentures	364,603	-
Non-current portion of convertible debentures	396,078	-
Embedded derivative	125,388	-
	<u>886,069</u>	<u>-</u>

During the year ended December 31, 2009, the interest expense charged for the above Stellar convertible loan notes was \$104,792 including the accretion of the loan to its future value. Accrued interest as at December 31, 2009 is \$71,884.

13. Asset retirement obligation

	2009	2008
	\$	\$
Beginning of the year	-	-
Recognised during the year	54,369	-
End of the year	<u>54,369</u>	<u>-</u>

The provision for rehabilitation relates to the Mandala alluvial mine in Guinea.

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

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(Stated in U.S. dollars)

14. Non-controlling interest

The non-controlling interest held in Stellar is:

	Company's ownership %	Non- controlling interest %	Carrying value of net equity \$	2009 \$	2008 \$
Stellar Diamonds Limited	58.34	41.66	11,909,706	5,041,651	9,011,297

During the year, Stellar issued 899,500 shares at a fair value of £0.20 per share in relation to services provided by third parties and shares issued to management, all of which were recognised as a share based payment in Stellar. Stellar also issued 167,330 shares at a price of £0.20 per share to acquire the remaining shareholding in a subsidiary. As a result, the Company recorded a dilution loss on its holding in Stellar of \$96,728 for the year ended December 31, 2009.

On March 31, 2008 Stellar issued 2,375,000 shares at a price of £1 per share for gross proceeds of £2,375,000 (\$4,724,571). On December 19, 2008, Stellar issued a further 15,567,675 shares at a price of £0.20 pence per share for gross proceeds of £3,113,535 (\$4,802,208). African Aura purchased 6,920,000 of these shares for £1,384,044 (\$2,134,701). At the same time Stellar settled debt of £622,356 (\$1,194,766) owing to African Aura through the issue of 3,111,781 shares at a price of £0.20 pence per share. As a result of these share issues, the Company recorded a dilution gain of \$1,231,793 in 2008.

The Company held 58.34% of the outstanding Stellar shares at December 31, 2009 (2008: 59.61%). As discussed in Note 21, the Company's interest in Stellar has been diluted further to 31.8% following the reverse takeover of West African Diamonds Limited and subsequent fund raising in February 2010.

Gains on shares issued by affiliated companies arise when the ownership interest of the Company in a controlled entity is diluted as a result of shares issuances of the investee company. The Company does not receive any cash proceeds in these transactions.

	2009 \$	2008 \$
Dilutive (loss)/gain on shares issued in Stellar	(96,728)	1,231,793
Dilutive gain on shares issued in SLIO	-	5,926,171
	(96,728)	7,157,964

As a result of the early adoption of Section 1602, *Non-Controlling Interests*, the dilution loss in 2009 is treated as a capital transaction and recognised directly in equity. Dilution gains or losses in prior years were recognised in the consolidated statement of (loss)/income.

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Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

15. Share capital

- (a) **Authorised**
Unlimited number of common shares without par value.
- (b) **Issued**
The number of shares has been restated to retroactively reflect the 1 for 8 share consolidation on October 13, 2009 as further discussed in Note 4.

	Shares	Amount \$
Balance at January 31, 2007	36,640,126	34,158,278
Shares issued on exercise of stock options	586,250	437,836
Balance at December 31, 2007	37,226,376	34,596,114
Shares issued on private placement (net of share issue costs) on May 29, 2008	2,500,000	3,367,010
Balance at December 31, 2008	39,726,376	37,963,124
Shares issued on acquisition of AAR (Note 4)	13,158,080	12,691,148
Share issue costs related to the acquisition of African Aura Resources Limited	-	(17,187)
Balance at December 31, 2009	52,884,456	50,637,085

The Company issued 105,264,638 shares (13,158,080 shares after retroactively restating for the 1 for 8 share consolidation) on the acquisition of African Aura Resources Limited as further discussed in Note 4.

The income per share for 2008 has been restated to reflect the share consolidation.

During the year, Stellar issued 1,066,830 shares at a price of £0.20 pence per share (Note 14).

(c) **Stock options in the Company**

The number of options and their related weighted average exercise prices for both years have been restated to retroactively reflect the 1 for 8 share consolidation on October 13, 2009 as further discussed in Note 4. Details of the stock options outstanding and exercisable during the year are as follows:

	Number of options	2009 Weighted average exercise price Cdn\$	Number of options	2008 Weighted average exercise price per Cdn\$
Beginning of the year	2,255,000	1.68	1,237,500	1.68
Options granted on acquisition of AAR (Note 4)	794,806	1.30	-	-
Other options granted	650,000	0.80	1,130,625	1.60
Options expired	(340,000)	1.92	(113,125)	0.80
End of the year	3,359,806	1.42	2,255,000	1.68

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Notes to the Consolidated Financial Statements

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15. Share capital (continued)

On October 13, 2009, the Company issued 794,806 options to the previous directors and employees of AAR on acquisition as further discussed in Note 4. The fair value of the stock options granted as part of the acquisition of AAR was determined to be \$524,518 based on using the Black-Scholes option pricing model with the following assumptions: no dividends were paid, a weighted average volatility of the Company's share price of 74.8%, a weighted average annual risk free rate of 3% and an expected life of three to six years.

The fair value of the other stock options granted during the year was determined to be \$59,400 based on using the Black-Scholes option pricing model with the following assumptions: no dividends were paid, a weighted average volatility of the Company's share price of 74.0%, a weighted average annual risk free rate of 3.5% and an expected life of five years.

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

Expiry date	2009		2008	
	Exercise price per share Cdn \$	Number of stock options outstanding	Exercise price per share Cdn \$	Number of stock options outstanding
March 23, 2009	-	-	1.92	340,000
July 25, 2010	1.76	327,500	1.76	327,500
July 31, 2011	1.84	344,375	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	1,130,625	1.60	1,130,625
July 1, 2013	2.80	63,780	-	-
January 19, 2014	0.80	650,000	-	-
June 6, 2015	0.41	181,530	-	-
December 1, 2015	0.84	235,498	-	-
December 1, 2015	1.25	98,124	-	-
December 1, 2015	1.67	29,437	-	-
January 1, 2017	1.43	19,625	-	-
June 28, 2017	2.29	166,812	-	-
		3,359,806		2,255,000

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15. Share capital (continued)

(d) *Stock options in Stellar*

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

	2009		2008	
	Number of options	Weighted average exercise price per share GBP£	Number of options	Weighted average exercise price per share GBP£
Beginning of the year	3,000,000	0.890	2,600,000	0.871
Activity during the year				
Options granted	1,000,000	0.225	400,000	1.000
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	3,000,000	0.890

The options granted during the year have resulted in a charge to the consolidated statement of (loss)/income of \$160,554 (2008: \$470,035) with the Black-Scholes option pricing model and the following assumptions: nil dividend yield (2008: nil), a weighted average expected volatility of the Company's share price of 64.5% (2008: 76%) based on the weighted average volatility from listed company peers, a weighted average annual risk free rate of 2.4% (2007: 2.4%) and an expected life of five years (2008: 5 years).

The options re-priced during the year have resulted in an additional charge to the consolidated statement of (loss)/income of \$214,788 with Black-Scholes option pricing model and the same assumptions to the options granted during the year.

As at December 31, 2009 the following stock options of Stellar were outstanding:

	2009		2008	
Expiry date	Exercise price per share £	Number of stock options outstanding	Exercise price per share	Number of stock options outstanding
March 13, 2010	0.871	527,500	-	-
March 13, 2010	0.225	2,365,000	0.871	2,600,000
April 21, 2013	0.225	100,000	1.000	400,000
April 21, 2014	0.225	1,000,000	-	-
		3,992,500		3,000,000

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15. Share capital (continued)

(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 to the previous warrant holder of AAR on acquisition as further discussed in Note 4. The fair value of the warrants was determined to be \$2,808 based on the Black-Scholes option pricing model with the following assumptions: no dividends were paid, a weighted average volatility of the Company's share price of 74.8%, a weighted average annual risk free rate of 3% and an expected life of five and a half months.

On November 29, 2009, Severstal's 2,500,000 warrants (originally 20,000,000 before the 1 for 8 share consolidation) 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. On expiry the amount of \$548,000 recognised in the warrant reserve, in respect of these warrants, was transferred to other comprehensive income.

16. 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:

	2009 \$	2008 \$
Statutory tax rate	30.00%	31.00%
Expected income tax recovery	(3,684,756)	(690,877)
Foreign income taxes at other than Canadian statutory rate	582,144	2,321,838
Non-deductible stock based compensation	216,747	451,244
Non-deductible interest	244,236	304,805
Non-deductible loss/(Non-taxable gain) on convertible debt	61,589	(257,881)
Other non-deductible expenses	218,420	-
Non-taxable dilution gain on shares issued by subsidiary company	-	(2,218,969)
Non-taxable portion of gain on sale of assets	(630,000)	(1,203,249)
Increase in valuation allowance	2,412,755	1,293,089
Adjustments related to prior years' tax computations	578,865	-
	-	-

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16. Income taxes (continued)

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

	2009 \$	2008 \$
Operating loss carry forwards	1,809,604	1,920,000
Property, plant and equipment, Resource properties and Deferred exploration costs	6,756,000	3,641,663
Non-remitted taxable gain	(1,794,435)	(1,203,249)
Less: Valuation allowance	(6,771,169)	(4,358,414)

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, 2009 and 2008.

At December 31, 2009, the Company had the following estimated loss carry forwards available for tax purposes:

	Amount \$	Expiry
Canada	6,032,000	2010-2029

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.

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17. Related party transactions

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

	2009	2008
	\$	\$
Incurring management service fees with a company related by a director in common	-	150,000
Incurring management fees by directors	634,178	774,805
Incurring directors fees	408,095	297,356
Incurring professional fees and consultancy services by a director	107,640	83,818
	<u>1,149,913</u>	<u>1,305,979</u>

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. No consultancy payments were made during the year.

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

	2009	2008
	\$	\$
Directors' companies	9,499	-
Various directors	160,213	142,004
	<u>169,712</u>	<u>142,004</u>

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. (formerly Mano River Resources Inc.)

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18. 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 were derived as follows:

	2009	2008
	\$	\$
Net sales		
- Guinea	1,179,004	-
Interest income		
- United Kingdom	2,676	74,075
- Canada	-	409
	1,181,680	74,484

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

	2009	2008
	\$	\$
Liberia	27,732,692	22,909,175
Guinea	11,012,089	11,089,990
Cameroon	7,499,062	-
Sierra Leone	4,845,216	11,179,235
United Kingdom	47,915	745
Democratic Republic of Congo	-	458,097
	51,136,974	45,637,242

Additional geographic information is provided in Note 10.

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19. 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 related parties, convertible debentures and embedded derivatives. The fair values of these financial instruments are estimated to approximate their carrying values due to their immediate or short-term nature.

The carrying amounts for the financial instruments are as follows:

	2009	2008
	\$	\$
Financial assets:		
<i>Held for trading</i>		
Cash	3,695,796	8,887,906
<i>Loans and receivables, measured at amortised cost</i>		
Accounts receivable	4,414,215	207,044
Due from joint venture partner	-	27,495
	8,110,011	9,122,445
Financial liabilities:		
<i>Other liabilities, measured at amortised cost</i>		
Accounts payable and accrued liabilities	2,119,693	1,148,659
Convertible debentures	3,795,840	2,048,638
Interest payable on convertible debentures	120,924	49,928
Due to joint venture partner	709,753	824,243
Due to related parties	169,711	149,660
	6,915,921	4,221,128
<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. 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 2009. In 2009, the Board decided to enter into currency forward contracts to hedge part of its exposure to the UK pound. There are no outstanding currency forward contracts as of December 31, 2009.

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19. Financial instruments and financial risk management (continued)

Carrying value of foreign currency balances	2009	2008
	\$	\$
Cash and cash equivalents, include balances denominated in:		
Pound Sterling (GBP)	156,338	1,236,356
Canadian Dollar (CAD)	1,700,828	15,233
Communaute Financiere Africaine Francs (CFA)	71,776	-
Euros (EUR)	25,041	-
Others	17,203	-
Amounts receivable, include balances denominated in:		
Pound Sterling (GBP)	139,878	194,498
Canadian Dollar (CAD)	19,615	5,871
Communaute Financiere Africaine Franc (CFA)	6,308	-
Amounts payable and accrued liabilities, include balances denominated in:		
Pound Sterling (GBP)	491,169	498,147
Canadian Dollar (CAD)	194,026	54,277
Communaute Financiere Africaine Franc (CFA)	101,046	-
Euros (EUR)	-	15,752
Others	22,654	-
Due to related parties, include balances denominated in:		
Pound Sterling (GBP)	169,711	149,660
Convertible debentures, include balances denominated in:		
Pound Sterling (GBP)	3,431,236	2,048,638
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 2009 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, 2009		
Pound Sterling (GBP)	0.6279	388,375
Canadian Dollar (CAD)	1.0491	152,642
Euro (EUR)	0.6977	2,504
Communaute Financiere Africaine Franc (CFA)	448.6280	2,296
At December 31, 2008		
Pound Sterling (GBP)	0.6910	126,559
Canadian Dollar (CAD)	1.2228	3,317
Euro (EUR)	0.7095	1,575

African Aura Mining Inc. (formerly Mano River Resources Inc.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Stated in U.S. dollars)

19. 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 financial assets with a maturity of less than 30 days to ensure adequate liquidity and flexibility. The maturity of the debt instruments has been set out in Note 12 and is reflected in the table below.

Due to the short maturity of the financial assets and the fixed rate of interest on the convertible debentures, 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 \$	1 year - 5 years \$
Cash and cash equivalents	3,695,796	-	-	-
Accounts receivable	65,730	106,280	4,242,205	-
Accounts payable and accrued liabilities	(2,119,693)	-	-	-
Due to related parties	(169,711)	-	-	-
Due to joint venture partner	-	(709,753)	-	-
Interest on convertible debentures	-	(99,080)	(21,844)	-
Convertible debentures	-	(364,604)	(3,035,158)	(396,078)
Net liquidity	1,472,122	(1,067,157)	1,185,203	(396,078)

All cash and cash equivalents are included within 30 days and would cover the shortfall in 30 days to 6 months. As disclosed in Note 8 the Company anticipates the receipt of the deferred consideration of \$4.2 million from Severstal on or before December 2010.

Credit risk

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

	2009 \$	2008 \$
Financial institutions with S&P AA- rating or higher	3,333,020	8,743,602
Financial institutions un-rated or unknown rating	362,776	134,304
	3,695,796	8,877,906

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20. 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 2009.

21. Subsequent events

On January 8, 2010, the Company granted incentive stock options to certain directors and employees to purchase up to an aggregate of 1,208,750 common shares in the Company exercisable for a period of five years at a price of Cdn\$1.22 per share.

On February 19, 2010, Stellar completed its reverse takeover of West African Diamonds Limited. Simultaneously, West African Diamonds Limited changed its name to Stellar Diamonds plc, raised £5 million of new funds raised, undertook a 5 for 1 share consolidation of the enlarged share capital and converted the convertible loan notes issued on May 1, 2009 (including the \$200,000 notes held by African Aura) into new shares in the enlarged company (Note 12). Stellar Diamonds plc commenced trading on AIM on February 22, 2010. Consequently, African Aura's interest in Stellar Diamonds plc has been diluted to 31.8%.

On April 20, 2010, the Company announced that it has conducted a private placing to raise gross proceeds of approximately £11.3 million (US\$17.5 million) consisting of 17,398,770 new common shares of no par value in the capital of the Company ('the Placing Shares') at 65 pence per share (CAD\$1.012) ('the Placing Price') ('the Placing').

Highlights

- Under the Placing the Company intends to issue the new common shares to certain institutional and other investors and certain Directors of the Company.
- Participations by Directors of the Company in the Placing total over £450,000
- Net proceeds of the Placing are anticipated to fund the Company's projects detailed below for at least 14 months and are intended to be applied as follows:
 - for completion of a Bankable Feasibility Study on the New Liberty gold deposit in Liberia (estimated cost approximately \$9.0 million);
 - to deliver a maiden resource statement for the Nkout iron ore project in Cameroon (estimated cost approximately \$3.8 million);
 - to deliver a NI 43-101 resource statement for the Weaju deposit in Liberia (estimated cost approximately \$1.1 million); and
 - the remaining net proceeds to fund the Company's working capital requirements.
- No funds being raised in this Placing to be applied to Putu Iron Ore Project in Liberia, which is currently fully funded under the joint venture agreement with Severstal Resources.

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21. Subsequent events (continued)

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

Directors' Shareholdings

The Company has been notified that, conditional on admission, 702,650 common shares in aggregate will be placed at the Placing Price with the following Directors:

Director	Number of common shares taken up under the Placing	Value of common shares taken up under the Placing	Total number of common shares held following the Placing	Percentage of enlarged issued share capital
David Netherway	19,000	£12,350.00	84,594	0.12%
Luis da Silva	45,650	£29,672.50	58,159	0.08%
Guy Pas	538,000	£349,700.00	5,597,226	7.96%
David Evans	23,000	£14,950.00	245,500	0.35%
Steven Poulton	77,000	£50,050.00	1,234,102	1.74%
	702,650	£456,722.50	7,219,581	10.27%

Following admission, the total issued share capital of the Company will be 70,283,226 common shares, all of which have voting rights.