Interim Consolidated Financial Statements

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

For The Nine Months Ended September 30, 2009
*(Stated in U.S. Dollars)*

*(Unaudited)*

# AFRICAN AURA MINING INC.
# (formerly Mano River Resources Inc.)

6th Floor, 890 West Pender Street, Vancouver, B.C. V6C 1J9
Telephone: (604) 689-1700 Fax: (604) 687-1327

## NOTICE TO READER

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the nine months ended September 30, 2009.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

## Consolidated Balance Sheet

## As at September 30, 2009

*(Stated in U.S. dollars)*

| | **September 30, 2009 $ (unaudited)** | December 31, 2008 $ (audited) |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | **3,108,048** | 8,877,906 |
| Amounts receivable | **237,695** | 207,044 |
| Inventory (Note 15) | **501,341** | - |
| Due from joint venture partners (Note 6) | **-** | 27,495 |
| | **3,847,084** | 9,112,445 |
| **Non-current assets** | | |
| Investment in associates (Note 5) | **8,260,187** | 8,093,775 |
| Property, plant and equipment (Note 7) | **10,332,160** | 3,896,933 |
| Resource properties (Note 8) | **1,396,500** | 6,330,092 |
| Deferred exploration costs (Note 8) | **20,471,737** | 27,316,442 |
| **Total assets** | **44,307,668** | 54,749,687 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **1,664,435** | 1,148,659 |
| Interest payable on convertible debenture (Note 12) | **164,418** | 49,928 |
| Due to related parties (Note 11) | **237,760** | 149,660 |
| Due to joint venture partners (Note 6) | **689,688** | 824,243 |
| | **2,756,301** | 2,172,490 |
| **Non-current liabilities** | | |
| Convertible debenture (Note 12) | **3,604,844** | 2,048,638 |
| Mine closure and site restoration | **170,100** | - |
| **Total liabilities** | **6,531,245** | 4,221,128 |
| **Non-controlling interest (Note 13)** | **4,938,283** | 9,011,297 |
| **Shareholders' equity** | | |
| Share capital (Note 10) | **37,326,987** | 37,963,124 |
| Equity component of convertible debenture (Note 12) | **2,637,802** | 2,637,802 |
| Warrant reserve | **548,000** | 548,000 |
| Contributed surplus | **4,768,101** | 4,488,976 |
| Accumulated other comprehensive loss | **(21,755)** | (21,755) |
| Deficit | **(12,420,995)** | (4,098,885) |
| **Total shareholders' equity** | **32,838,140** | 41,517,262 |
| **Total liabilities, non-controlling interest and shareholders' equity** | **44,307,668** | 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

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

Luis G. Cabrita da Silva

***(Signed)*** *DAVID B. EVANS, DIRECTOR*

David B. Evans

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

Consolidated Statement of Loss

For the nine months ended September 30, 2009

*(Stated in U.S. dollars)*

| | **Three months ended September 30 2009 $ (unaudited)** | Three months ended September 30 2008 $ (unaudited) | **Nine months ended September 30 2009 $ (unaudited)** | Nine months ended September 30 2008 $ (unaudited) |
|---|---|---|---|---|
| **Operating revenue** (note 14) | **359,161** | - | **563,705** | - |
| **Operating expenses** | | | | |
| Expenses excluding depreciation and amortization | **589,698** | - | **1,033,211** | - |
| Depreciation and amortization | **780,297** | - | **1,435,533** | - |
| **Operating loss** | **1,010,834** | - | **1,905,039** | - |
| **Expenses** | | | | |
| Administrative and office expenses | **(58,597)** | 216,225 | **700,029** | 825,404 |
| Directors fees | **52,804** | 46,314 | **321,226** | 258,787 |
| Management fees | **164,337** | 152,038 | **391,723** | 536,947 |
| Interest on convertible debenture (note 12) | **302,923** | 96,719 | **838,879** | 293,241 |
| Professional fees | **(55,816)** | 140,763 | **536,070** | 1,678,447 |
| Share based payment charge | **287,747** | - | **722,489** | 1,314,755 |
| Transfer agent and filing fees | **15,353** | 37,364 | **53,337** | 74,892 |
| Project impairment (note 8) | **6,913,238** | 5,161,333 | **7,435,525** | 5,161,333 |
| Depreciation | **6,354** | (111,312) | **21,167** | 44,140 |
| Unrealised loss/(gain) on convertible debenture (note 12) | **(198,725)** | (409,170) | **128,922** | (718,210) |
| Dilution loss/(gain) on shares issued by controlled company | **24,385** | - | **77,054** | (1,830,620) |
| Loss on disposal of assets | **50** | - | **27,073** | - |
| **Total expenses** | **7,454,053** | 5,330,274 | **11,253,494** | 7,639,116 |
| **Other income** | | | | |
| Foreign exchange (gain)/loss | **(348,853)** | 190,074 | **(341,455)** | 279,339 |
| Interest income | **(19)** | (21,415) | **(2,676)** | (72,316) |
| Gain on investment in associates | **(40,928)** | - | **(166,412)** | - |
| **Loss before non-controlling interest** | **8,075,087** | 5,498,933 | **12,647,990** | 7,846,139 |
| Non-controlling interest | **3,287,324** | 136,711 | **4,325,880** | 742,155 |
| **Loss and comprehensive loss** | **4,787,763** | 5,362,222 | **8,322,110** | 7,103,984 |
| Basic and diluted loss per share | **(0.015)** | (0.017) | **(0.026)** | (0.023) |
| Basic and diluted weighted average number of shares outstanding | **317,810,818** | 317,810,818 | **317,810,818** | 306,934,906 |

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 nine months ended September 30, 2009

*(Stated in U.S. dollars)*

| | **Three months ended September 30 2009** | Three months ended September 30 2008 | **Nine months ended September 30 2009** | Nine months ended September 30 2008 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| **Operating Activities** | | | | |
| Loss and comprehensive loss | **(4,787,763)** | (5,362,222) | **(8,322,110)** | (7,103,984) |
| Items not involving cash: | | | | |
| Gain on investment in associates | **(40,928)** | - | **(166,412)** | - |
| Dilution loss/(gain) on shares issued by controlled company | **24,385** | - | **77,054** | (1,830,620) |
| Non-controlling interest | **(3,287,324)** | (136,711) | **(4,325,880)** | (742,155) |
| Share based payment charge | **287,747** | - | **722,489** | 1,314,755 |
| Interest income | **(19)** | - | **(2,676)** | - |
| Interest on convertible debentures | **302,922** | 96,719 | **838,878** | 293,241 |
| Unrealised loss on convertible debt | **(198,725)** | (409,170) | **128,922** | (718,210) |
| Depreciation of fixed assets | **786,672** | (111,311) | **1,456,721** | 44,140 |
| Impairment of projects | **6,913,238** | 5,161,333 | **7,435,525** | 5,161,333 |
| Loss on sale of fixed assets | **50** | - | **27,073** | - |
| Changes in non-cash working capital: | | | | |
| Amounts receivable | **(105,872)** | 66,726 | **(30,651)** | 153,359 |
| Inventory | **(198,118)** | - | **(501,341)** | - |
| Accounts payable and accrued liabilities | **(556,706)** | 376,594 | **248,223** | 660,839 |
| | **(860,441)** | (318,042) | **(2,414,185)** | (2,767,302) |
| **Investing Activities** | | | | |
| Deferred exploration expenditures (net of joint venture costs) | **(577,538)** | (1,617,846) | **(3,268,132)** | (7,094,935) |
| Interest income | **19** | - | **2,676** | - |
| Purchase of capital assets | **20,103** | (41,675) | **(245,076)** | (1,866,503) |
| | **(557,416)** | (1,659,521) | **(3,510,532)** | (8,961,438) |
| **Financing Activities** | | | | |
| Issuance of share capital (net of costs) | **(636,137)** | - | **(636,137)** | 3,915,010 |
| Proceeds of convertible debenture in subsidiary | **478,170** | - | **853,161** | - |
| Interest paid on convertible debenture | **11,645** | - | **(150,265)** | (412,037) |
| Proceeds from issue of shares in subsidiary | **(160,747)** | - | **-** | 4,692,518 |
| Due to related parties | **25,269** | (295,335) | **88,100** | 406,575 |
| | **(281,800)** | (295,335) | **154,859** | 8,602,066 |
| Foreign exchange differences | **-** | 25,143 | **-** | 27,396 |
| **Net cash outflow** | **(1,699,657)** | (2,247,756) | **(5,769,858)** | (3,099,280) |
| Cash, Beginning of Period | **4,807,705** | 3,248,663 | **8,877,906** | 4,100,187 |
| Cash, End of Period | **3,108,048** | 1,000,907 | **3,108,048** | 1,000,907 |

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

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

Consolidated Statement of Shareholders' Equity

For the nine months ended September 30, 2009 (unaudited)

*(Stated in U.S. dollars)*

| UNAUDITED | Common shares Number | Common shares Amount $ | Contributed surplus $ | Warrant reserve $ | Equity component of convertible debenture $ | Deficit accumulated in the development stage $ | Accumulated other comprehensive deficit $ | Total Shareholders' equity $ |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2007 as originally stated** | **297,810,818** | **34,596,114** | **1,904,465** | **-** | **2,637,802** | **(4,662,952)** | **(21,755)** | **34,453,674** |
| Restatement of stock-based compensation | - | - | 1,863,884 | - | - | (1,863,884) | - | - |
| Non-controlling interest in stock-based compensation | - | - | (586,937) | - | - | 586,937 | - | - |
| **Balance at December 31, 2007** | **297,810,818** | **34,596,114** | **3,181,412** | **-** | **2,637,802** | **(5,939,899)** | **(21,755)** | **34,453,674** |
| Income for the year | - | - | - | - | - | 1,841,014 | - | 1,841,014 |
| Shares issued on private placement | 20,000,000 | 3,367,010 | - | 548,000 | - | - | - | 3,915,010 |
| Stock-based compensation | - | - | 1,455,625 | - | - | - | - | 1,455,625 |
| Non-controlling interest in stock-based compensation | - | - | (148,061) | - | - | - | - | (148,061) |
| **Balance at December 31, 2008** | **317,810,818** | **37,963,124** | **4,488,976** | **548,000** | **2,637,802** | **(4,098,885)** | **(21,755)** | **41,517,262** |
| Loss for the period | - | - | - | - | - | (8,322,110) | - | (8,322,110) |
| Stock-based compensation | - | - | 434,742 | - | - | - | - | 434,742 |
| Non-controlling interest in stock-based compensation | - | - | (155,617) | - | - | - | - | (155,617) |
| Share issuance costs | - | (636,137) | - | - | - | - | - | (636,137) |
| **Balance at September 30, 2009** | **317,810,818** | **37,326,987** | **4,768,101** | **548,000** | **2,637,802** | **(12,420,995)** | **(21,755)** | **32,828,140** |

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

**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 the merger with African Aura Resources Limited.

The Company anticipates further operating losses as exploration continues across its property portfolio. Seasonal fluctuations have no material impact on the Company.

**2. Basis of preparation**

These interim financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The interim financial statements do not include all the note disclosures required for annual financial statements but they are presented in accordance with the same accounting principles, policies, and methods that are used in the preparation of the Company's annual financial statements, therefore they should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008.

The statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for the fair presentation of the information contained in them.

Results of operations for the nine month period ended September 30, 2009 are not necessarily indicative of the results that can be expected for the year ending December 31, 2009.

The Company has prepared its consolidated financial statements on a going concern basis which assumes that the Company will be able to realise assets and discharge liabilities in the normal course of business. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional finance in the future. If the Company cannot obtain additional finance in the future it may be forced to realise its assets at amounts significantly lower than the current carrying value. At September 30, 2009 the Company had cash and cash equivalents of $3.1M. The merger with African Aura Resources Limited which completed on October 13, 2009 will add approximately $3.4M to the Company's cash reserves. With Putu now financed for the immediate future up to feasibility, the Company will focus its resources on those projects that will add most to the value of the Company.

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.

**3. Significant accounting policies**

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.

*(a)* ***Principles of consolidation***

These financial statements include the accounts of African Aura Mining Inc. and its principal subsidiaries, Mano Gold Investments Ltd. (formerly Mano River Resources Ltd.) including sub-group Mano River Iron Ore Holdings Ltd. ("MARIOH"), and Mano Diamonds Ltd.

The shares not legally owned by the Company in its subsidiaries are held by a third party company. This third party has no beneficial interest in the shares and is holding the shares for the Company's benefit until the Company and the third party agree on their ultimate distribution. As the Company retains the beneficial interest in these shares no non-controlling interest exists at September 30, 2009 in respect of these shares.

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. During 2008 MARIOH reduced its holding in SLIO to 44.3% (see note 5). SLIO is accounted for as an investment in associates 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. Cumulative post-acquisition movements are adjusted against the carrying amount of investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has unsecured obligations or made payments on behalf of the associate.

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Variable interest entities ("VIEs"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, *Consolidation of Variable Interest Entities* ("AcG 15"), are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. As at September 30, 2009 the Company does not hold an interest in any VIEs.

All intercompany balances and transactions have been eliminated upon consolidation.

*(b)* ***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.

*(c)* ***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.

*(d)* ***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.

*(e)* ***Long-term investments***

Investments in associates are recorded at cost, subject to a provision for any impairment that is determined to be other than temporary.

*(f)* ***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.

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.

*(g)* ***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 investments, resource properties, deferred exploration costs, asset retirement obligations, future income tax, stock-based compensation 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.

In February 2008, the CICA issued Section 1000. The standard intends to reduce the differences with International Financial Reporting Standards ('IFRS') in the accounting for intangible assets and results in closer alignment with US GAAP. Under current Canadian standards, more items are recognised as assets than under IFRS or US GAAP. This standard will be effective for fiscal years beginning on or after 1 October 2008.

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

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

*(i)* ***Foreign currency translation***

The functional currency of the Company and all subsidiaries is US Dollars with the exception of the UK branch which has a functional currency of Pounds Sterling.

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

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

*(j)* ***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, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period.

*(k)* ***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.

*(l)* ***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 carryforwards 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.

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

*(n)* ***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. 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 September 30, 2009 the Company has recognised retirement obligations on Mandala of £170,100 as of September 30, 2009.

*(o)* ***Financial instruments***
The Company's cash and cash equivalents have been classified as held for trading and are recorded at fair value. All other financial instruments will be recorded at cost or amortised cost, subject to impairment reviews. Other financial instruments include amounts receivable, accounts payable, amounts due to related parties, amounts due to joint venture partners and convertible debentures.

*(p)* **Revenue**

Revenue is measured at the fair value of the consideration received or receivable and comprises the fair value for the sale of goods, net of value added tax, rebates and discounts and after eliminated sales within the Group. Revenues recognised for the sale of goods as follows:

Sale of goods

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.

*(q)* ***Adoption of new accounting standards and accounting pronouncements***

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 net 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 is classified as held-for-trading;
- Amounts 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 September 30, 2009 and December 31, 2008 the recorded amount approximates fair value;
- Long-term investments are classified as "available-for-sale"; and
- Short-term and long-term liabilities, accounts payable and due to joint venture partners are classified as "other financial liabilities" and are measured at amortized cost using the effective interest rate method. At September 30, 2009 and December 31, 2008 the recorded amount approximates fair value.

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. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

*(Stated in U.S. dollars)*

**4. Investments in Stellar Diamonds Limited ("Stellar")**

During the year ended December 31, 2008, Stellar entered into several private placements and issued 21,054,456 shares for a total value of $10,689,492, resulting in a dilution gain of $1,231,793, which was recognised in the consolidated statement of loss for the year ended December 31, 2008. Although Stellar did not enter in to any private placements in the nine months to September 30, 2009 it did issue 899,500 shares for services at a price of £0.20 per share. This gave rise to a dilutive loss of $77,054 in the period which has been recorded in the consolidated statement of loss.

Stellar is a 58.54% owned subsidiary controlled by the Company and the results of operations and assets and liabilities have been consolidated with the accounts of the Company with effect from the date of acquisition.

**5. Investments in Severstal Liberia Iron Ore ("SLIO")**

During the year ended December 31, 2008, African Aura entered into an agreement (The SPSA) with OAO Severstal Resources. The SPSA provides for the acquisition by an indirect wholly-owned subsidiary of Severstal of 25% of the issued and outstanding shares of SLIO for $12.5M from Mano River Iron Ore Holdings Ltd., a wholly-owned subsidiary of African Aura, and of a further 20% of the issued and outstanding shares of SLIO from the minority interest parties in SLIO, for $10.0M. It also provides for the subscription by Severstal for new ordinary shares in SLIO for an aggregate price of $15M. These acquisitions and the subscription will give the indirectly wholly-owned Severstal subsidiary a 61.5% stake in SLIO on completion of the SPSA.

During 2008 Severstal completed the acquisition of 16.67% of the SLIO shares from Mano River Iron Ore Holdings and 13.33% of the shares from the minority interests as well as completing the $15M subscription for an additional 30% of SLIO. The remaining third of the acquisition agreement has been deferred until December 2010, at which point the Company will receive $4.2M. The Company has not recorded in the financial statements the deferred element of the agreement. At September 30, 2009 the Company holds 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.

At September 30, 2009 the value of the Company's investment in SLIO increased by $166,412 as detailed below:

| **Equity value of investment** | September 30, 2009<br>$ | December 31, 2008<br>$ |
|---|---|---|
| Net Assets in SLIO at period end | 18,633,402 | 18,257,984 |
| Interest held in share capital | 44.33% | 44.33% |
| Equity value of investment in associate at period end | 8,260,187 | 8,093,775 |

*(Stated in U.S. dollars)*

**5. Investments in Severstal Liberia Iron Ore ("SLIO") (continued)**

| **Net gain in the value of the investment** | September 30, 2009 $ |
|---|---|
| Equity value of investment as at December 31, 2008 | 8,093,775 |
| Equity value of investment as at September 30, 2009 | 8,260,187 |
| Net gain on the value of the investment in SLIO | 166,412 |

The gain on investment in SLIO is recorded in the consolidated statement of loss.

**6. Due to/from joint venture partners**

The amount owing to Petra Diamonds, in connection with the Kono joint venture diamond project in Sierra Leone, is $689,688 (excluding interest) and $714,046 (including interest) as at September 30, 2009 (June 30,2009: $717,640). An agreement was reached with Petra to reduce the amount owed from $717,640 to $689,688. This balance is due for repayment on December 20, 2009 and accrues interest at a rate of interest based on six month US$ libor rate plus 5%. During the period ended September 30, 2009 the Company incurred interest expense of $36,558.

As at September 30, 2009 the amount due from joint venture partners amounted to nil (December 31, 2008:$27,495).

**7. Property, Plant and Equipment**

| | **Machinery & Equipment** $ | **Assets Under Construction** $ | **Total** $ |
|---|---|---|---|
| **Cost** | | | |
| At January 1, 2009 | 501,149 | 3,793,388 | 4,294,537 |
| Additions | 195,803 | 50,271 | 246,074 |
| Asset retirement | 170,100 | - | 170,100 |
| Transfer from Deferred Exploration & Acquisition Costs | 7,503,844 | - | 7,503,844 |
| Transfers | 3,843,659 | (3,843,659) | - |
| Disposals | (40,101) | - | (40,101) |
| At September 30, 2009 | **12,174,454** | - | **12,174,454** |
| **Depreciation** | | | |
| At January 1, 2009 | 397,604 | - | 397,604 |
| Charge for the period | 1,456,721 | - | 1,456,721 |
| Disposals | (12,031) | - | (12,031) |
| At September 30, 2009 | **1,842,294** | - | **1,842,294** |

*(Stated in U.S. dollars)*

**7. Property, Plant and Equipment (continued)**

| **Carrying amount** | | | |
|---|---|---|---|
| At December 31, 2008 | **103,545** | **3,793,388** | **3,896,933** |
| At September 30, 2009 | **10,332,160** | **-** | **10,332,160** |

Assets under construction are the plant and related equipment at Stellar's Mandala diamond operation in Guinea. These assets have been transferred to machinery and equipment in April 2009 to coincide with the commencement of production.

**8. Resource properties and deferred exploration costs**

| | **Sep. 30, 2009** **$** | **Dec. 31, 2008** $ |
|---|---|---|
| **Acquisition costs:** | | |
| **Liberia, West Africa:** | | |
| Bea | **210,000** | 210,000 |
| **Sierra Leone, West Africa:** | | |
| Sonfon and Nimini | **1,186,500** | 1,186,500 |
| **Guinea** | | |
| Mandala | **4,933,592** | 4,933,592 |
| Transfer Mandala to Property, Plant and Equipment | **(4,933,592)** | - |
| Total | **1,396,500** | 6,330,092 |

| | | |
|---|---|---|
| **Deferred exploration costs:** | | |
| **Liberia, West Africa:** | | |
| Bea – KGL | **15,375,216** | 13,817,084 |
| Weaju | **751,743** | 742,268 |
| Gondoja | **34,348** | 34,348 |
| | **16,161,307** | 14,593,700 |
| **Sierra Leone, West Africa:** | | |
| Kono | **1,888,108** | 7,979,870 |
| Sonfon | **1,190,080** | 1,190,080 |
| Nimini | **189,142** | 134,574 |
| Tongo | **701,886** | 682,836 |
| | **3,969,216** | 9,987,360 |

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

Notes to the Consolidated Financial Statements
For the nine months ended September 30, 2009 (unaudited)
*(Stated in U.S. dollars)*

**8. Resource properties and deferred exploration costs (continued)**

| | | |
|---|---|---|
| **Guinea, West Africa** | | |
| Bouro | **192,044** | 191,114 |
| Druzhba | **149,170** | 149,170 |
| Mandala | **2,570,252** | 1,965,071 |
| Transfer Mandala to Property, Plant and Equipment | **(2,570,252)** | - |
| | **341,214** | 2,305,355 |
| **Democratic Republic of Congo** | | |
| REMEC | **-** | 430,027 |
| Closing balance | **20,471,737** | 27,316,442 |

| | **Three months ended September 30, 2009** | Three months ended September 30, 2008 | **Nine months ended September 30, 2009** | Nine months ended September 30, 2008 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| **Deferred exploration expenditures** | | | | |
| Assays incl. shipment | **4,491** | 72,680 | **11,141** | 110,502 |
| Communications incl. equipment | **5,768** | 39,412 | **18,110** | 114,311 |
| Community relations | **69,552** | 46,241 | **123,631** | 146,101 |
| Consultants | **22,248** | 468,429 | **512,995** | 917,837 |
| Data, images, reports and maps | **5,611** | 37 | **9,511** | 5,435 |
| Drilling | **-** | 319,767 | **-** | 1,530,734 |
| Geologists' support | **-** | - | **-** | 11,045 |
| Infrastructure incl. roads and bridges | **77,825** | 15,056 | **194,366** | 83,253 |
| Licenses and permit fees | **28,956** | 69,732 | **38,750** | 112,107 |
| Project/field office costs, incl. field equip. | **30,022** | 270,747 | **405,649** | 648,632 |
| Salaries and wages | **244,560** | 573,600 | **761,204** | 1,858,415 |
| Subsistence | **3,871** | 33,135 | **18,129** | 149,219 |
| Transportation incl. vehicles | **(39,145)** | 130,372 | **257,025** | 309,291 |
| Kono (Petra) joint venture | **90,494** | 988,135 | **908,238** | 2,175,038 |
| Transfer to Mifergui-Nimba investment | **-** | 46,500 | **-** | - |
| **Net expenditure during the period** | **544,253** | 3,073,843 | **3,258,749** | 8,171,920 |
| Impairment during the period (1) | **(7,010,915)** | (2,712,833) | **(7,533,202)** | (2,712,833) |
| Transfer of Mandela costs to Property, Plant and Equipment | **-** | - | **(2,570,252)** | - |
| Balance, Beginning of period | **26,938,399** | 35,016,127 | **27,316,442** | 29,918,050 |
| **Balance, End of period** | **20,471,737** | 35,377,137 | **20,471,737** | 35,377,137 |

Impairment during the period relates to Stellar's properties and includes Kono ($7,000,000), REMEC (DRC - $431,483) and Camp Alpha (Liberia - $60,545).

**9. 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 Mountains, 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 $km^2$ 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. During the year ending December 31, 2008 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 project in December 2008.

*(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 ("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 ("Kono Licences") of Sierra Leone.

Under the terms of the agreement Petra has earned a 51% interest in Basama Diamonds Ltd, the remaining 49% is held by Stellar Diamonds Ltd., by spending $3M over three years.

From 1st January 2009 Stellar elected to sole fund the Kono project for 2009 and planned to reinvest all diamond revenues in the continued development of the project. However, in May 2009 the Company reluctantly decided to place Kono on temporary care and maintenance due to diamond market conditions. At the end of 2009 the Company's joint venture partner Petra Diamonds will have the option to reimburse Stellar 51% of the project costs incurred during the year to maintain its 51% equity in the project, or dilute its interest.

(ii) Golden Star Joint Venture

On November 24, 2003, the Company signed a comprehensive letter of agreement ("LoA") with Golden Star Resources ("GSR"), which contains all the main terms of a joint venture covering licence packages in Sierra Leone. Under the terms of the LoA, GSR can earn an interest in the gold rights of the licences currently held by African Aura through its subsidiary, Golden Leo Resources Limited subject to GSR meeting set conditions including minimum expenditure limits. GSR has met its expenditure commitment under the stage three agreement and therefore their beneficial interest in the project is now 51%.

**9. Joint Ventures and Project Agreements (continued)**

Under the agreement African Aura has the right to elect to contribute pro-rata to the 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 feasibility study 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 1M 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 Ltd (previously Dwyka Resources) in a 50:50 joint venture basis. Nyota Minerals 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 diamond resource of 535,000 carats (NI 43-101 compliant).

*(d) Democratic Republic of Congo*

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 have been written off in quarter two, 2009 ($430,995).

*(Stated in U.S. dollars)*

## 10. Share capital

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

(b) ***Issued***

| | Shares | Amount |
|---|---|---|
| | | $ |
| Balance at January 31, 2005 | 213,405,818 | 21,461,793 |
| Shares issued on private placement (net of costs) | 40,000,000 | 7,180,800 |
| Shares issued on exercise of warrants | 12,500 | 894 |
| Balance at January 31, 2006 | 253,418,318 | 28,643,487 |
| Shares issued on private placement (net of share issue costs) | 39,562,500 | 5,502,741 |
| Shares issued on exercise of stock options | 140,000 | 12,050 |
| Balance at January 31, 2007 | 293,120,818 | 34,158,278 |
| Shares issued on exercise of stock options | 4,690,000 | 437,836 |
| Balance at December 31, 2007 | 297,810,818 | 34,596,114 |
| Shares issued on private placement (net of share issue costs) on May 29, 2008 | 20,000,000 | 3,367,010 |
| Balance at December 31, 2008 | 317,810,818 | 37,963,124 |
| Costs associated with the African Aura Resources merger | - | (636,137) |
| Balance at September 30, 2009 | 317,810,818 | 37,326,987 |

During the nine month period ended September 30, 2009 there were no issues of shares of the Company. In the period Stellar issued 889,500 shares at a price of £0.20 pence per share.

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

A summary of the status of the Company's Stock Option Plan as at September 30, 2009 and December 31, 2008 and changes during the periods then ended are as follows:

| | **Sep. 30, 2009** | | Dec. 31, 2008 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of Options | Weighted average exercise price |
| | | **Cdn$** | | Cdn$ |
| Balance outstanding and exercisable, beginning of period | **18,040,000** | **0.21** | 9,900,000 | 0.21 |
| Activity during the period | | | | |
| Options granted | **5,200,000** | **0.10** | 9,045,000 | 0.20 |
| Options expired | **(2,720,000)** | **0.24** | (905,000) | 0.10 |
| Balance outstanding and exercisable, end of period | **20,520,000** | **0.18** | 18,040,000 | 0.21 |

*(Stated in U.S. dollars)*

**10. Share capital (continued)**

As at September 30, 2009 the following stock options were outstanding:

| Number of stock options outstanding | Exercise price per share<br>Cdn.$ | Expiry date |
|---|---|---|
| 2,620,000 | 0.22 | July 25, 2010 |
| 2,755,000 | 0.23 | July 31, 2011 |
| 600,000 | 0.23 | March 16,2012 |
| 300,000 | 0.23 | May 20, 2012 |
| 9,045,000 | 0.20 | January 17, 2013 |
| 5,200,000 | 0.10 | January 19, 2014 |
| 20,520,000 | | |

*(d)* ***Stock options in subsidiaries***

The following is a summary of the stock option plan for the Company's majority held subsidiary Stellar Diamonds Ltd, as at September 30, 2009 and December 31, 2008.

| | | **Sep. 30, 2009** | | Dec. 31, 2008 |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price per share**<br>**GBP£** | Number of options | Weighted average exercise price per share<br>GBP£ |
| Balance outstanding and exercisable, beginning of period | **3,000,000** | **0.890** | 2,600,000 | 0.870 |
| Activity during the period | | | | |
| Options granted | **1,000,000** | **0.225** | 400,000 | 1.000 |
| Cancelled | **(7,500)** | **0.871** | | |
| Less options repriced | **(100,000)** | **1.000** | | |
| Plus options repriced | **100,000** | **0.225** | | |
| Less options repriced | **(300,000)** | **1.000** | | |
| Plus option repriced | **300,000** | **0.225** | | |
| Less options repriced | **(2,065,000)** | **0.871** | | |
| Plus options repriced | **2,065,000** | **0.225** | | |
| Balance outstanding and exercisable, end of period | **3,992,500** | **0.314** | 3,000,000 | 0.890 |

*(Stated in U.S. dollars)*

**10. Share capital (continued)**

As at September 30, 2009 the following stock options were outstanding in Stellar:

| Number of stock options Outstanding | Exercise price per share GBP£ | Expiry date |
|---|---|---|
| 300,000 | 0.225 | March 26, 2013 |
| 527,500 | 0.871 | March 26, 2013 |
| 2,065,000 | 0.225 | March 26, 2013 |
| 100,000 | 0.225 | April 21, 2013 |
| 1,000,000 | 0.225 | April 21, 2014 |
| 3,992,500 | | |

(e) *Share purchase warrants*

As at September 30, 2009, 20,000,000 warrants were outstanding to purchase shares of the Company at an exercise price of £0.14p with an expiry date of November 29, 2009. These warrants were granted to Severstal as part of the private placement completed on May 29, 2008.

As at September 30, 2009 18,679,456 share purchase warrants were outstanding in Stellar. These warrants were issued on December 19, 2008 at an exercise price of £0.25 pence, which are exercisable at any time over a period of 18 months.

**11. Related party transactions**

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

| | **September 30, 2009 $** | December 31, 2008 $ |
|---|---|---|
| Incurred management service fees with a company related by a director in common | **74,003** | 150,000 |
| Incurred management fees by directors | **475,565** | 774,805 |
| Incurred directors fees | **108,552** | 297,356 |
| Incurred professional fees and consultancy services by a director | **2,476** | 83,818 |
| | **660,596** | 1,305,979 |

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

*(Stated in U.S. dollars)*

At the end of September 2009, the amounts due to related entities are as follows:

| | **September 30, 2009** | December 31, 2008 |
|---|---|---|
| | **$** | $ |
| Directors' companies | **74,003** | - |
| Various directors | **163,757** | 149,660 |
| | **237,760** | 149,660 |

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

**11. Related party transactions (continued)**

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.

**12. Convertible debentures**

On September 27, 2007 the Company issued unsecured convertible debentures to raise £2.3M ($4.6M). 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 (16,428,571 shares) at a conversion price of £0.14 pence 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 £0.182 pence 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 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.

Below is a summary of the debt element of the African Aura convertible debenture:

| | **September 30, 2009** | December 31, 2008 |
|---|---|---|
| | **$** | $ |
| Opening balance | 2,048,638 | 2,260,738 |
| Fair value accretion | 574,123 | 619,773 |
| Unrealised foreign currency exchange loss /(gain) | 128,922 | (831,873) |
| Closing balance | **2,751,683** | 2,048,638 |

During the nine months ended September 30, 2009 the total interest expense charged to the consolidated statement of loss is $838,879 (December 31, 2008:$983,242) including the accretion of the loan to its future value. Interest has been paid up to May 1, 2009 and therefore an accrual of $133,117 is included at the end of September 2009, Included in the income statement is $128,922 recognised as an unrealised foreign currency exchange rate loss in the period to September 30, 2009.

*(Stated in U.S. dollars)*

## 12. Convertible debentures (continued)

On 1 May 2009, Stellar issued convertible debentures (secured on Mandala plant and equipment) and raised $574,991. The convertible debentures are repayable on 31st January 2010 and 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 an expiring of 30 June 2010. Interest charges to the consolidated statement of loss accrued in the period amounted to $838,878. African Aura contributed $200,000 to the debt raising which was eliminated on consolidation.

On September 21, 2009, Stellar issued convertible debentures (secured on Mandala plant and equipment) and raised £300,000 ($478,169). The convertible debentures 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 or £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.

Below is a summary of the debt element of the Stellar convertible debenture:

| | **September 30, 2009** **$** |
|---|---|
| Opening balance | 1,053,160 |
| Less African Aura element | (200,000) |
| Closing balance | 853,160 |

During the period ended September 30, 2009 Stellar incurred interest expense relating to the convertible debentures of $31,301.

## 13. Non-controlling interest

The non-controlling interest held in Stellar is detailed below:

| | African Aura Ownership % | Non Controlling Interest % | Carrying value of net equity $ | **Sep 30, 2009 $** | Dec 31, 2008 $ |
|---|---|---|---|---|---|
| Stellar Diamonds Ltd. | 58.54 | 41.46 | 12,170,657 | **4,808,342** | 9,011,297 |
| | | | | **4,808,342** | 9,011,297 |

In 2007, the Company transferred its diamond properties which had a book value of $8,276,081 to Stellar in exchange for 19,239,541 shares in Stellar. The exchange was recorded at book value as it was a transaction between companies under common control. In 2007, Stellar completed two private placements in order to raise funds to finance the development of its diamond interests. In the first placement 1,211,890 shares were issued at an effective price of £0.87 pence per share. 918,484 of those shares were issued for cash consideration, raising proceeds of £800,000 ($1,571,438), while the remaining 293,406 shares were issued to the subscribers in consideration for forfeiture of certain rights as a

**13. Non-controlling interest (continued)**

result of the diamond reorganisation. In the second placement 4,822,044 shares were issued at a price of £0.871 pence per share for proceeds of £4,200,000 ($8,611,361). In addition, Stellar issued 2,411,022 warrants with a two year term and an exercise price of £1.20 per share as well as 260,390 adviser's options with a two year term and an exercise price of £0.871 pence per share. As a result of these shares issuances by Stellar, the Company recorded a dilution gain of $6,207,005 in the year ended December 31, 2007.

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.

Stellar issued 550,000 shares at a price of £0.20 per share during the second quarter and 349,500 shares during the third quarter in relation to services provided by third parties and shares issued to management. The Company recorded a dilution loss on its holding in Stellar of $77,054 during the period.

**14. Operating revenue**

The revenue for the period relates to Stellar and arises from the sale of diamonds in Antwerp from the Mandala mine in Guinea. The Mandala plant was commissioned in April and the sales to June 30, 2009 amounted to 7452 run of mine carats sold at an average of $27.44 per carat. In the third quarter sales amounted to 5109 run of mine carats at an average of $70.60 per carat. The higher average is due to the higher proportion of gem diamond sold versus industrials. Total sales to September 30, 2009 amounted to 12561 run of mine carats at an average of $44.88 per carat. This is the only operating revenue the Company has.

**15. Inventory**

Inventory is valued at the lower of cost and net realisable value. The inventory figure on hand at September 30, 2009 relates to Stellar's Mandala mine and includes diesel ($20,000) and diamonds ($481,341).

**16. Capital risk management**

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

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

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

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

The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital risk management as at September 30, 2009.

## 17. Subsequent events

On October 27, 2009 the Company announced that heads of agreement had been reached between the Company’s 58.5% owned subsidiary and AIM listed West African Diamonds Limited (“WAD) to undertake a combination of business interests that, if successful will constitute a reverse takeover of WAD by Stellar.

On October 14, 2009 the Company announced the completion of its merger with African Aura Resources Limited (AAR).

Highlights:

* AAR shareholders received 1.57 shares in Mano for each share held in AAR
* Mano consolidated its enlarged issued share capital on a 1 new share for 8 existing shares basis
* Mano changed its name to African Aura Mining Inc ('African Aura')
* African Aura to trade on AIM (AAAM) and on TSX-V (AUR)
* Having been acquired by Mano, AAR shares have been delisted from TSX-V
* David Netherway (Non-Executive Chairman) and Steven Poulton (Non-Executive Director) appointed to enlarged board of African Aura
* Updated company website at www.african-aura.com

As part of the Transaction David Netherway has been appointed Independent Chairman of the Board of African Aura and Steven Poulton has been appointed as an independent director.