

**AFRICAN AURA MINING INC.**

**Management's Discussion and Analysis  
For the nine months ended September 30, 2010**

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The following discussion is management's assessment and analysis of the results and financial condition of African Aura Mining Inc. (the "Company" or "Aura" or "African Aura") based upon Canadian Generally Accepted Accounting Principles ("GAAP") and should be read in conjunction with the accompanying consolidated financial statements and related notes for the nine months to September 30, 2010. This management discussion and analysis has been prepared based on information available to the Company as at November 26, 2010. Unless otherwise indicated all amounts are in US dollars.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.african-aura.com](http://www.african-aura.com).

**1. OVERVIEW**

**(a) DESCRIPTION OF BUSINESS**

African Aura is an exploration and development company focused on gold and iron ore projects in west Africa, The Company's 38.5% interest in the Putu iron ore project is held through Severstal Liberia Iron Ore ("SLIO"). African Aura has subsidiaries in Liberia, Cameroon and Sierra Leone, which hold interests in mineral properties. African Aura's diamond interests are now held through a 22% (see subsequent events) equity interest in Stellar Diamonds plc ("Stellar"). The Company has a loyal and strong workforce and supports the local communities in which it operates by sourcing services and supplies, creating job opportunities and participating in social programmes. The Company is listed on the TSX Venture Exchange (TSX-V Ticker AUR) and the AIM Market ("AIM") of the London Stock Exchange (Ticker AAAM).

**(b) COMPANY HISTORY**

The Company was formed in 1998 by a reverse takeover involving the sale of the interests of Mano River Resources Ltd. into Zicor Mining Inc. with a subsequent change of name to Mano River Resources Inc.

Mano Gold Investments Ltd. (formerly Mano River Resources Ltd.), a BVI registered company, was founded in July 1996 by Guy Pas. At the time of the reverse takeover, the Company and its subsidiaries had spent over \$2.4 million in establishing an in-country presence, acquiring, evaluating and exploring prospective properties.

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

Golden Limbo Rock Resources Ltd. had been actively exploring in Guinea since late 1994, and Golden Leo Resources Ltd. researched Sierra Leone's potential during the course of 1995, subsequently applying for licences immediately following the election of 1996.

Licences were also obtained in Liberia since 1994 where, in 1996, a Liberian geologist started assessing the geology.

From its Guinea base, the Company actively expanded on the ground into Sierra Leone in 1996 and Liberia in 1997, always with gold prospecting as its main target. As a pioneer in the region the Company had to deal with the serious aftershocks of the civil conflicts in Sierra Leone (1997-2002) and in Liberia (2002-2003). At the same time the Company faced a prolonged period of historically depressed gold prices resulting from unusual producer hedging and central bank activity (1996-2003). Given all of this, the Company's initial 8 years were characterised by survival strategies including diversification into diamonds in 2000.

On October 14, 2009 the Company announced the completion of its merger with African Aura Resources Ltd ("AAR"). After closing the transaction Mano undertook a 1 for 8 share consolidation and changed its name to African Aura Mining Inc.

In February 2010, the Company's subsidiary Stellar Diamonds completed a reverse takeover of AIM listed West African Diamonds Limited. Shares began trading in Stellar (ticker: STEL) on February 22, 2010. Stellar is

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no longer a subsidiary of the Company and is treated as an associate in the consolidation of the Financial Statements.

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

##### Introduction

The Company's strategy is to develop its assets into producing mines and to generate positive cash flow as early as possible. The Company expects to continue to focus on West Africa where it has experience, strength and depth. From a commodity perspective, the Company's focus will continue to be on gold and iron ore.

Recent marketing meetings have brought ample suggestions from shareholders and potential investors alike about the benefits of splitting the Company into pure gold and iron ore focused companies. This supports the Board's view and with this in mind the Company plans to achieve this objective, by completing a plan of arrangement to split the Company, which will be subject to regulatory, shareholder and court approval. The rationale for splitting the Company can be summarised as follows:

- the separation of African Aura's iron ore and gold assets will allow separate valuations to be ascribed to each of its iron ore and gold divisions resulting in a higher overall valuation than currently ascribed to the Company. A benchmarking of peer companies in both gold and iron ore supports such a move;
- the market tends to prefer 'pure play' single commodity focused entities; and
- the new companies will be better positioned to finance their businesses and grow through exploration and acquisition

##### Business Strengths

The Company's management believes African Aura is well placed to implement its strategy through the business strengths discussed below:

##### *A Strong Portfolio of Assets*

The Company has a strong portfolio of assets which include:

- The Company's 38.5% owned Putu iron ore project in Liberia, which is being explored and operated by the Company's joint venture partner, Severstal Resources ("Severstal"). Putu has a NI 43-101 compliant inferred resource of 1.08 billion tonnes of iron ore at 37.6% iron from less than one quarter of the strike length of the 500-600 metre high ridge drilled to date;
- The 100% owned New Liberty Gold Mine project in Liberia has a NI 43-101 compliant resource estimate of 1.51M contained ounces of gold grading 3.78 g/t (5.6M tonnes grading 4.17 g/t for 751,000 ounces in the indicated category and 7M tonnes grading 3.4 g/t for 762,000 ounces in the inferred category). The pre-feasibility study will be completed at the end of December 2010 and a definitive feasibility study for an open pit mine will commence in Q1 2011;
- A promising portfolio of early stage gold projects in Liberia and Cameroon; and
- The promising Nkout iron ore prospect in Cameroon, which is currently being drilled.

##### *Experienced Board*

The Directors have extensive experience of operating in Africa and taking projects through to development and production. On the Board there is a balanced representation of directors with operational, corporate and financial backgrounds.

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*Strong Partnerships*

The Company has strong technical and financial partners, in Severstal to help develop the Putu iron ore project and in Golden Star Resources Ltd. (GSR) which is the operator of the Sonfon gold project in Sierra Leone.

*Managed Risk*

The Company seeks to manage and mitigate its political and economic risk by operating across three primary countries and in two principal minerals, namely gold and iron ore.

*Technically Strong*

The Company has experienced exploration teams in the countries in which it operates with the flexibility to work across the region in areas where the geological setting is well understood. The Company employs up-to-date technological tools to better focus its exploration efforts, and has its own drilling equipment and trained drilling team.

**(d) ON-GOING PROJECTS**

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

<b>Country</b>	<b>Project</b>	<b>Commodity</b>	<b>Status at Sept 30, 2010</b>	<b>2010 Plans</b>	<b>African Aura Ownership</b>	<b>Financial Statements</b>
Liberia	Putu	Iron ore	MDA awarded; camp completed	Drilling and metallurgical test work	38.5%	Associate
Cameroon	Nkout	Iron ore	Planning next phase of exploration	Continued drilling	100%	Subsidiary
Liberia	New Liberty	Gold	Continued drilling of the Latiff Zone and step out drilling along strike to the west	Resource update Q4; Preliminary Economic Assessment Q4; Definitive Feasibility Study to commence end Q4	100%	Subsidiary <sup>1</sup>
Liberia	Ndablama	Gold	Trenching completed	Drilling planned for Q3/Q4 2010	100%	Subsidiary <sup>1</sup>
Liberia	Weaju	Gold	On hold	On hold	100%	Subsidiary <sup>1</sup>
Sierra Leone	Sonfon	Gold	Exploration and drilling completed	Awaiting the results of the current campaign to decide the future strategy	49%	Subsidiary <sup>2</sup>

<sup>1</sup> Licences are held by Bea Mountain Aura's Liberian subsidiary

<sup>2</sup> Only the Company's share of the expenditure is recorded

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**2. EXPLORATION PROJECTS**

**(a) IRON ORE**

**(i) Putu Iron Ore, Liberia**

Putu is located in the centre of a 425 square kilometre exploration licence in Grand Gedeh County of eastern Liberia. The project consists of two prominent ridges, namely Mt. Jideh (with the Mt. Montrouh extension) and Mt. Ghi. Mt Jideh is the priority target and has a strike length of approximately 12-13 km based on mapping, surface sampling and airborne magnetic data.

The Company signed certain financing and development agreements with Severstal on May 22, 2008 and subsequently completed the transaction on December 10, 2008. On completion Severstal agreed to pay the Company a total consideration of \$12.5 million for a 25% share in African Iron Ore Group (renamed Severstal Liberia Iron Ore Ltd. – "SLIO") effectively valuing the project at \$50 million. Severstal paid the Company \$8.3 million in December 2008, with the balance of \$4.2 million being deferred until December 2010. On October 20, 2010 the Company announced it had received early repayment of the deferred amount from Severstal. In addition Severstal has invested \$15 million through a subscription of shares in December 2008 and has spent a further \$15 million to-date through a loan facility agreement. With effect from November 2010 African Aura will start contributing 38.5% of total project expenditure.

On August 3, 2009 the Company announced an inferred mineral resource of 1.08 billion tonnes of iron ore mineralisation at a 37.6% grade of total iron at its 38.5%, owned Putu Iron Ore Project in south-eastern Liberia, which was reported on by SRK Consulting (UK) Ltd. The resource estimate has been prepared under the guidelines of NI 43-101 and covers less than one quarter of the 13 km strike of the Putu project. These results are very encouraging and show the potential for the resource to grow as exploration continues. The primary objective of planned exploration activities is to generate a resource of at least 2 billion tonnes, which should be sufficient in scale to support a project and associated infrastructure capable of producing 20 million tonnes per year of magnetite concentrate.

In 2010, the Company and Severstal have continued their exploration and development activities on the Putu Project, the highlights of which are as follows:

- metallurgical test work by AMDEL Laboratories was completed in June 2010, the key results of which were as follows:
  - useful pointers were obtained for further metallurgical test work to be conducted at the pre-feasibility and feasibility stages;
  - primary target mineralisation type (magnetite itabirite BIF) was determined to be hard and possibly amenable to AG milling;
  - wet magnetic separation of ground magnetite itabirite BIF generated a high grade (69-70% Fe) concentrate with low SiO<sub>2</sub>, at a mass recovery of approximately 55% and a grind size of 40-50 microns;
  - a saleable concentrate could not be produced from transition zone or weathered BIF by magnetic separation, gravity separation, or flotation; and
  - the iron mass recoveries and iron concentrate grade are significantly higher than the assumptions used in a previous appraisal undertaken in 2008.
- drilling contractors GTR (Russia) and OSD (Australia) have mobilized equipment on the Putu Project for the proposed 62,000 metre drilling programme. GTR commenced drilling on May 21, 2010 and OSD commenced drilling on July 7, 2010. Up to the end of September 2010, approximately 17,561 metres had been drilled;
- consultants have been engaged to complete biodiversity, surface and groundwater baseline studies;

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- construction of the Petrokon exploration camp is essentially complete and includes accommodation for 112 people. The investment in the infrastructure has resulted in limited drilling downtime during the current wet season; and
- a pre-feasibility study was commenced in early 2010 and is scheduled to be completed in 2012, with a definitive feasibility study expected 18 months thereafter.

On September 2, 2010, the Government of Liberia granted Putu Iron Ore Mining Inc. a 25 year mineral development agreement ("MDA") providing for the development and construction of the Putu Project and a two-year extension for exploration at the Putu Project until September 2012.

To date, approximately US\$24 million (CAD\$25 million) has been incurred in the exploration and development of the Putu Project. While the Putu Project is currently being financed by Severstal, the Corporation and Severstal will begin to share, on a pro-rata basis, project expenditure from November 2010.

**(ii) Nkout, Ngoa and Akon Hills, Cameroon**

African Aura has three principal early stage iron ore projects in Cameroon, namely Nkout, the adjacent Ngoa and the more distant Akon Hills. The Company completed a 14,000 line km high resolution airborne geophysical survey across these licences in April 2010. The results defined a major geophysical anomaly covering at least 8km of strike length over the Nkout project. The data suggests the presence of an east-west striking antiform with two limbs approximately 100m thick and magnetic susceptibilities of around 2.0, which is considered consistent for a prospective banded iron formation. A further 12km of targets were generated around Nkout which are considered to be moderately magnetic.

Phase one of the drilling programme at Nkout for 10 holes and covering 4,200m started at the end of July and is designed to provide a maiden inferred resource covering the first 30% of the primary 8km long target which we are now drilling. A second (in-house) drill rig was mobilised to site at the end of September in order to accelerate the resource definition programme. Up to the end of September approximately 2,000 metres has been drilled. After completion of phase one it is the intention to continue with a further 4,000m of drilling. Results from Phase one will be available late Q4, early Q1 2011.

The region of southern Cameroon, Gabon and the Republic of Congo hosts a number of substantial iron deposits, which are currently under exploration and development including the 2.5 bt Mbalam iron ore deposit, located approximately 150km southeast of Nkout, which is under development by ASX-quoted Sundance Resources Limited. In the event that Mbalam is put into production, and should Nkout prove to be the iron ore target the Company currently expects, there is almost certain to be a strong strategic and commercial rationale for African Aura and Sundance Resources Limited to co-operate or form an infrastructure alliance. The general consensus for the region is that iron ore projects in the Republic of Congo and Gabon will have their route to port through Cameroon.

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**(b) GOLD**

**(i) New Liberty Gold Mine, Liberia**

The key asset in the Gold division is the 100% owned New Liberty Gold Project, situated some 90km north west of the capital city Monrovia, where the Company has recently published an updated NI 43-101 compliant gold resource estimate of 1.51M ounces of gold grading 3.78 g/t (5.6M tonnes grading 4.17 g/t for 751,000 ounces in the indicated category and 7M tonnes grading 3.40 g/t for 762,000 ounces in the inferred category). The indicated resource has been projected to an approximate depth of 200 metres below surface. The inferred resource remains open down dip and along strike. A total of 175 diamond drill holes have been completed at New Liberty for 27,736m, the majority of which have been utilised in the latest mineral resource estimate.

On August 10, 2009 the Company announced that it had been granted by the Government of Liberia a Class 'A' Mining Licence within the Bea Mountain MDA. This represented another positive step towards commercial production.

The best drill intersect from New Liberty is currently 8.45 g/t Au over 37m from 55m depth and the deposit, which crops out at surface, remains open at depth. Metallurgical testwork undertaken by the Company on drill core from New Liberty has indicated a non-refractory ore with excellent expected recoveries of up to 93%.

A Preliminary Economic Assessment ("PEA") by AMC Consultants (UK) Limited is presently underway and will be completed in early December. The PEA will utilise the latest resource estimate and will target an open pit gold mine targeting 100,000oz annual production.

**(ii) Weaju gold project, Liberia**

The Weaju prospect is situated 30km to the east north east of New Liberty and is part of the Bea Mountain MDA. Mineralisation is concentrated in shear zones, along a contact zone between granite and schist-belt lithologies, into which quartz-tourmaline veins and pegmatites have been intruded. A soil geochemical grid and geological mapping demonstrated a strike length of 1.5 km in an east north-east trend for the mineralisation, open to the east and west. Artisanal workings have confirmed the continuity of mineralisation and previous drilling intersections have included 19.63 g/t gold over 6m from a depth of 18m and 27.72 g/t gold over 6m from a depth of 47m. During the first half of 2010 the Camp at Weaju has been upgraded in preparation of the planned drill programme. The planned 4,000 metre diamond drilling programme scheduled for 2010 has been postponed until the first half of 2011 as exploration activities have been concentrated on New Liberty and Ndablama.

**(iii) Ndablama gold project, Liberia**

The Ndablama prospect is located in the northeast corner of the Company's 25 year MDA in western Liberia and approximately 40km northeast of New Liberty. Ndablama is defined by the presence of extensive artisanal gold mining activity. The largest workings have a strike length of approximately 200m and attain a width of up to 50m. A soil survey undertaken by the Company at Ndablama delineated a 1.2km long north south trending anomalous zone of gold enrichment, up to 100m wide and remains open along strike. Follow up trenching was undertaken by the Company along a 400m long southern section of the anomaly. The trenches were 2-3m deep and exposed weathered tourmaline granites, amphibolites and sheared and folded ultramafic schists, the latter attaining widths of over 150m. Sampling of the trenches returned best results of 1.38 g/t Au over 70m (including 5.21 g/t Au over 8m) and 1.06 g/t Au over 70m (including 1.58 g/t Au over 10m). A follow-up 14 hole diamond drilling programme has now commenced to test the anomalous zone at depth. Artisanal miners are prevalent at Ndablama to the southwest of Gondoja, where local miners are extracting gold from the top soil. Limited soil and channel sampling at Ndablama has yielded positive results with channel samples assaying grades of 1.47 and 2.91 g/t over 3m respectively. Recent grid samples have been dispatched to the lab for analysis and four existing trenches will be extended to 100m and three further trenches have been sited as part of the next phase of work.

**(iv) Other Gold Projects, Liberia**

Silver Hills has already produced encouraging results in the past, and samples from a recent trenching programme suggest further trenching is warranted. Bridge rehabilitation in the area was completed enabling workers to access the site and construction of a camp has been completed. At Gondoja, exploration is still at an early stage despite encouraging results from an earlier drilling programme. Further exploration at Gondoja

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and Silver Hills is planned for 2011. The resource property and deferred exploration costs relating to North Bea amounting to \$2.5 million as it was deemed that the project was not economic.

**(v) Sonfon Gold Project, Sierra Leone**

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

**(vi) Cameroon Gold Projects**

The two main gold projects in Cameroon are Batouri and Ntem. Batouri is the most advanced and has had \$4.1 million spent on it to-date and Ntem \$0.6 million. The Company has prepared an exploration programme for 2011 which will include drilling at Batouri and early stage exploration at Ntem. In addition to these two licences there are a number of other early stage gold projects still to be evaluated.

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**3. SUMMARY OF PERFORMANCE**

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

The following table provides a summary of the annual audited consolidated financial information for the three most recently completed financial years as derived from the audited consolidated financial statements and is prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

US Dollars	Year ended December 31 2009	Year ended December 31 2008	11 months ended December 31 2007 RESTATED
Net sales	1,179,004	-	-
Gross loss	(1,534,671)	-	-
Interest income	2,676	74,484	148,041
Administrative and office expenses	1,349,718	1,044,292	63,236
Project impairment	7,756,846	11,250,591	-
Professional fees	1,431,128	1,938,650	958,629
Dilution gain	-	7,157,964	6,207,005
Stock based compensation	722,489	1,455,625	2,053,887
Gain on disposal of SLIO	3,076,366	7,762,899	-
(Loss)/income attributable to the owners of the parent for the year	(7,739,218)	1,841,014	2,740,695
Basic and diluted (loss)/income per share attributable to the owners of the parent	(0.182)	0.048	0.074
Working capital	1,516,852	6,939,955	2,868,877
Total assets	59,467,811	54,749,687	45,501,911
Exploration expenditure in the year	5,305,617	10,402,580	6,526,656
Deferred exploration costs	22,378,268	27,316,442	29,918,050
Non-current convertible debentures	396,078	2,048,638	2,260,738

The basic and diluted (loss)/income per share has been retroactively restated for the 1 for 8 share consolidation that took place on October 13, 2009.

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

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

US Dollars	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
Net sales	-	-	320,367	615,299
Gross profit/(loss)	-	-	(440,639)	370,368
Interest income	39,093	5,486	7,494	-
Dilution gain/(loss)	-	-	-	77,054
Project impairment	62,314	2,504,604	-	321,321
Gain on disposal of assets	-	-	2,913,773	3,076,366
(Loss)/Income attributable to the owners of the parent company	(1,190,980)	(5,844,898)	811,413	582,892
Basic and diluted income/(loss) per share	(0.017)	(0.098)	0.015	0.028
Total assets	65,259,974	66,104,223	55,396,326	59,467,811
US Dollars	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Net sales	359,161	204,544	-	-
Gross profit/(loss)	(1,010,834)	(894,205)	-	-
Interest income	19	1,143	-	2,168
Dilution gain	(24,385)	(52,669)	1,514	5,327,344
Project impairment	6,913,238	500,371	-	6,089,258
Gain on disposal of SLIO	-	-	21,916	7,762,899
Income/(loss) attributable to the owners of the parent company	(4,787,763)	(2,923,267)	(611,080)	8,944,998
Basic and diluted income/(loss) per share	(0.121)	(0.074)	(0.015)	0.224
Total assets	44,307,648	52,765,793	53,661,289	54,749,687

The Company's performance is not affected by seasonal trends. Diamond sales commenced in Q2, 2009 and stopped in following the reverse takeover of WAD by Stellar in Q1, 2010. As an explorer the Company has historically incurred losses, however, in the quarter ended December 31, 2008 the Company recorded a net income of \$8,944,998. This income arose as a result of several one-off transactions including dilution gains on Stellar and SLIO and a gain on the sale of shares in SLIO. The basic and diluted (loss)/income per share has been retroactively restated for the 1 for 8 share consolidation that took place on October 13, 2009.

The basic and diluted (loss)/income per share has been retroactively restated for the 1 for 8 share consolidation that took place on October 13, 2009.

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**(c) RESULTS OF OPERATIONS**

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

**(a) Review of three months ended September 30, 2010 (unaudited) compared to the three month period ended September 30, 2009 (unaudited).**

The loss in Q3 of \$1.2 million compares with a total loss of \$8.1 million last year of which \$4.8 million was attributable to the owners and \$3.3 million to the non-controlling interest (i.e. Stellar's minority shareholders). There was no gross profit/(loss) in the quarter following the disposal of Stellar in Q1 which compares with a gross loss of \$1 million last year. Expenses in the quarter at \$0.3 million are \$7.0 million lower than last year due to a number of factors including: lower project impairment costs (down \$6.9 million); lower management fees due to the disposal of Stellar (down \$0.1 million); and a higher foreign exchange gain of \$0.6 million (up \$0.3 million). The variance between administrative expenses and stock based compensation arose due to a reclassification between these categories last year. Professional fees at \$0.2 million are \$0.3 million above last year due to a reclassification of merger fees to equity in 2009. Share in the result of associates at \$0.8 million includes the loss in Stellar which is now attributable to the Company.

**(b) Review of nine months ended September 30, 2010 (unaudited) compared to the nine month period ended September 30, 2009 (unaudited).**

The loss for the nine months of \$6.5 million compares with a total loss of \$12.6 million last year. The loss attributable to owners of the parent of \$6.2 million compares with a loss of \$8.3 million last year. The gross loss to-date of \$0.4 million (represents the period up to the disposal of Stellar) compares with a gross loss of \$1.9 million last year. Expenses to-date are \$7.2 million down \$3.4 million on last year. The main reasons for the lower level of expenses are: a reduction in impairment costs (down \$4.9 million), and lower management and director fees (down \$0.3 million) due to the disposal of Stellar. Certain expenses increased namely, stock based compensation (up \$1.0 million) as a result of two option grants made by the Company in January and May 2010 totalling 2.5 million options versus one grant in 2009 of 650,000 options, higher depreciation (up \$0.2 million) due to the purchase of vehicles and equipment during the year and the write-off of some obsolete assets; professional fees (up \$0.2 million) includes \$0.2 million legal fees relating to the Stellar disposal and \$0.1 million relating to the proposed restructuring of the Company and foreign exchange, \$0.3 million higher than last year. A gain of \$2.9 million was recognised on the disposal of Stellar. Finally, the share in results of associates increased the loss by \$1.9 million which represents the Company's equity share of the losses of Stellar and Severstal Liberia Iron Ore (SLIO).

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

**Balance Sheet at September 30, 2010 versus December 31, 2009**

Total assets at \$65.3 million are \$5.8 million above last year. Current assets at \$14.6 million are up \$6.3 million mainly due to the higher cash and cash equivalents following the successful fund raising in April. Non-current assets at \$50.6 million are \$0.5 million down on last year. Investment in associates increased by \$7.7 million due to the disposal of Stellar which is now treated as an associate company. The reduction in property, plant and equipment of \$10.1 million is due to the disposal of Stellar in Q1. Resource properties at \$7.6 million reduced by \$2.5 million following the impairment of North Bea gold project in Liberia. Deferred exploration costs at \$26.7 million increased by \$4.4 million. Exploration expenditure in the period of \$7.4 million (New Liberty \$4.1 million and Nkout \$2.4 million) was off-set by the disposal of the Stellar exploration properties with a carrying value of approximately \$3 million.

Current liabilities reduced by \$1.1 million to \$5.7 million at the end of September. Accounts payable and accruals fell by \$0.7 million over December 2009 levels while the amount outstanding to Stellar, which is now disclosed separately following the disposal, amounted to \$0.5 million. The amount owing to joint venture partners at December refers to Petra Diamonds and was eliminated on disposal of Stellar. The convertible debentures amounting to \$3.6 million matured at the end of September. The convertible debenture holders have agreed to convert these debentures to common shares in the Company, which was effected in early October. Non-current liabilities reduced to nil (down \$0.4 million on December); this balance previously related to convertible debentures and asset retirement obligations of Stellar.

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Shareholders' equity increased by \$7.3 million in 2010 to \$59.6 million. The main movement was the increase in share capital of \$16.9 million following the issue of 17.4 million common shares in April. The contributed surplus has risen by \$1.7 million due to issuance of share options in January and May 2010. The non-controlling interest in Stellar of \$5.0 million was eliminated on the disposal of Stellar. The deficit increased from \$11.4 million to \$17.6 million at the end of September.

**Cash Flow for the three and nine months ended September 30, 2010**

The cash inflow for the nine months ending September 30 amounted to \$6.3 million leaving cash at the end of September of \$10 million down \$3.6 million from the Q2 level. The cash inflow for the period was \$12.1 million above the corresponding period last year. The fund raising in April raised \$16.9 million while no funds were raised in the corresponding period last year. The majority of the cash outflow was spent on investing activities (\$8.2 million), with \$7.3 million being spent on exploration and \$0.8 million on property, plant and equipment. Operating activities including corporate costs amounted to \$2.5 million for the nine months, which is in line with the same period as last year.

There was a cash outflow of \$3.6 million for the September 2010 quarter compared with a cash outflow of \$1.7 million for the September 2009 quarter. In Q3 2010 an additional \$2.7 million was spent on exploration and \$0.6 million on property, plant and equipment versus last year. The additional exploration expenditure has been spent mainly on Nkout (Iron Ore) and New Liberty (Gold) and includes drilling (\$0.8 million), assays (\$0.2 million); additional staff costs (\$0.5 million); and more infrastructure expense on developing and upgrading the camps and local infrastructure projects including bridges and roads (\$0.3 million).

**(d) OTHER INFORMATION**

**(i) Outstanding share data**

The Company is authorised to issue an unlimited number of common shares without par value. As at December 31, 2009 the common shares in issue were 52,884,456. This increased to 70,283,226 common shares in issue at September 30, 2010 following the private placement which took place in April 2010.

Details of the stock options of the Company which are outstanding and exercisable as at September 30, 2010 are as follows:

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

On January 8, 2010, the Company granted incentive stock options to directors and employees to purchase up to an aggregate of 1,208,750 common shares of no par value at an exercise price of Cdn\$1.22 per share, exercisable immediately and for a period of 5 years. These options have resulted in a charge to the consolidated statement of income/(loss) of \$846,481.

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

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

The Company has no share purchase warrants outstanding.

**(ii) Convertible debentures**

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

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

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

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

**(iii) Off balance sheet arrangements**

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

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**(iv) Related party transactions**

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

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

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

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

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

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

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

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

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

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**(v) Deemed Disposal of Stellar Diamonds Limited**

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

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

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

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

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

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

The following table summarizes the carrying values of the assets and liabilities disposed on February 19, 2010 and the gain on disposal.

	\$
<b>Current assets</b>	
Cash and cash equivalents	69,382
Accounts receivable	28,223
Due from African Aura group companies	248,090
Inventories	39,463
	<u>385,158</u>
<b>Non-current assets</b>	
Property, plant and equipment	10,388,492
Deferred exploration costs	2,975,998
	<u>13,364,490</u>
<b>Total assets disposed</b>	<u>13,749,648</u>
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	490,276
Interest payable on convertible debenture	51,336
Embedded derivative	125,388
Due to related parties	20,970
Due to joint venture partners	709,753
	<u>(1,397,723)</u>

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**(v) Deemed Disposal of Stellar Diamonds Limited (continued)**

<b>Non-current liabilities</b>	
Convertible debenture	485,690
Asset retirement obligation	54,369
	<u>(540,059)</u>
<b>Total liabilities derecognized</b>	<u>(1,937,782)</u>
<b>Minority interest derecognized</b>	<u>(5,254,445)</u>
<b>Net assets and non-controlling interest disposed</b>	<u>6,557,421</u>
<b>Total consideration</b>	<u>9,471,194</u>
<b>Net assets and non-controlling interest disposed</b>	<u>6,557,421</u>
<b>Gain on disposal of Stellar</b>	<u>2,913,773</u>

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

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

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

The asset additions relate mainly to vehicles (\$0.5 million) and field and office equipment (\$0.3 million). This investment is necessary to progress the Company's key projects.

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

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

The resource property costs relating to North Bea amounting to \$2,457,767 was impaired in Q2 2010 and \$14,297, in relation to Ekomedion was impaired in Q3 2010. In both cases the licences were not renewed as the projects were not considered to have the economic potential to warrant further exploration.

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**(vii) Resource properties and deferred exploration costs (continued)**

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

The expenditure above reflects the Company's strategy of focusing on New Liberty (79% of total deferred costs) and Nkout (9% of total deferred costs). While New liberty has been an exploration target since the Company was founded Nkout only came into the portfolio following the merger in October 2009 with AAR.

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**(vii) Resource properties and deferred exploration costs (continued)**

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

As can be seen in the table above expenditure to-date in 2010 has reached \$7.3 million. Drilling at \$2.7 million is on-going at both New Liberty and Nkout and represents 37% of expenditure during the year. The Company has two of its own rigs operating in Liberia and two rigs operating in Cameroon, one of which is a Company rig. Using our own rigs and drilling team gives the Company more control over its exploration programme and is more cost effective. Salaries and wage costs have increased following the recruitment of additional qualified staff to manage the increased exploration programme and ensure key milestones are achieved. Impairment costs have fallen by \$7.4 million over 2009.

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**(viii) 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 impairment if so indicated. The impairment review undertaken by management during Q2, 2010 identified North Bea, Liberia for impairment after the licence expired. The total impairment charge for North Bea is \$2,504,604. The impairment charge in Q3 amounted to \$62,314 and represents expenses incurred on the Ekomedion project, in Cameroon impaired after the licence expired.

**(ix) Going concern**

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

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

**(x) International Financial Reporting Standards (IFRS)**

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

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

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

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**(xi) Investment in associates**

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

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

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

**(xii) Private placing**

On April 20, 2010, the Company announced that it has conducted a private placing raising gross proceeds of \$17.4 million (£11.3 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 (the "Placing price") (the "Placing"). The direct costs to issue the Placing Shares which have been charged to share capital amounted to \$498,848. Participations by Directors of the Company in the Placing totalled over £450,000.

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

Net proceeds of the Placing are anticipated to fund the Company's projects detailed below up to June 2011 and are intended to be applied as follows:

- for completion of a Definitive 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 or surrounding deposits in Liberia (estimated cost approximately \$1.1 million); and
- the remaining net proceeds to fund the Company's working capital requirements.

No funds were raised in this Placing will be applied to Putu Iron Ore Project in Liberia, which is currently fully funded under the joint venture agreement with Severstal Resources.

**(xiii) Subsequent Events**

*Conversion of convertible debentures into ordinary shares*

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

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**(xiii) Subsequent Events (continued)**

*Investment in associate*

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

*Receipt of deferred consideration from Severstal*

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

*Issuance of share options*

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

*Proposed restructuring of the Company*

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

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

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

*Result of fully underwritten placing*

Further to the announcement earlier today, African Aura is pleased to announce that 13,515,797 new common shares in the Company (the "Placing Shares") have been successfully placed by Evolution Securities Limited as Global Coordinator, Sole Book Runner and Sole Underwriter, to institutional and other investors.

The placing price has been set at 150 pence per share. The placing price is equivalent to a 2.28 per cent. discount to the closing mid-market price on the AIM market of the London Stock Exchange on 25 November 2010. Accordingly, the Placing will raise gross proceeds of approximately £20.3 million (approximately \$32.0 million). The Placing Shares represent approximately 18.7 per cent. of African Aura's issued share capital prior to the Placing.

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**4. FORWARD-LOOKING STATEMENTS**

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

**5. TRENDS IN THE MINING SECTOR**

In the wake of the global economic crisis which started in 2008 the mining sector has been faced with plummeting demand and lower prices. The market capitalisation of many companies fell dramatically as share prices tumbled. Equity markets which were already difficult became even worse. In the face of this turmoil companies started to cut back on overheads, and place projects that were non-core on care and maintenance. The larger mining houses scaled back their work forces, placed deals on hold and started to investigate ways of reducing their debt burden. Just when the industry was preparing itself for a long period of stagnation, demand and commodity prices started to recover in 2009. By August 2009 base metal prices had returned to profitable levels, recovering at a faster pace than most industry analysts had predicted. This was in part helped by the concerted effort of the largest industrial nations agreeing stimulus packages. Driven by the need to secure the supply of key commodities countries like China have been investing heavily around the world. This trend is causing some countries to rethink the sale of sovereign assets to foreign investors including sovereign wealth funds. Not all companies cut back during the recession with many gold companies maintaining production to take advantage of the high prices. The lack of available capital is still hurting companies in the sector with funding going to the best projects first. Markets such as London's AIM have been hit hard with very few new listings in the mining sector over the past two years. Some markets such as Canada's TSX are recovering faster but most equity financing is confined to commodities such as gold and silver, copper, iron ore and coal. Still the challenge is to find and develop quality assets, which is becoming more difficult as easy to reach deposits are depleting. Those companies that will survive are the ones that will keep pace with change, embracing new ideas and techniques. African Aura sees itself as one of those companies that is prepared to embrace new ways of working and is already taking a proactive approach to the way it operates the Company.

**6. RISKS AND UNCERTAINTIES**

The Company is subject to a number of risk factors due to the fundamental nature of the exploration business in which it is engaged, the countries in which it operates and not least adverse movements in commodity prices. The Company seeks to counter exploration risk as far as possible by selecting exploration areas on the basis of their recognised geological potential to host high grade gold and iron ore deposits. The under-explored Archaean terrain on which the Company focuses in West Africa is also subject to a second significant risk, namely, political.

The following risk factors should be given special consideration when evaluating an investment in the Company's shares:

***a) Current global financial conditions***

The recent events in global financial markets have had a profound impact on the global economy. The volatility in global equities, commodities, foreign exchange, precious metals and a lack of market liquidity, may adversely affect the Company's development. The global credit/liquidity crisis could also impact the cost and availability of finance and hence adversely affect the Company's liquidity.

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**6. RISKS AND UNCERTAINTIES (continued)**

***b) Exploration and production may not prove successful***

The Company's business operations are subject to risks and hazards inherent to the mining industry. The exploration for and the development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. It is impossible to ensure that the Company's current exploration programmes will result in a profitable commercial mining operation.

***c) Development of the Company's prospective projects will require granting of additional licences***

In some cases the Company's licenses do not currently provide for the development of a mine. Consequently, Aura will be required to obtain further licences from the respective government departments in the applicable countries of operation (mining, environmental and otherwise). Aura expects to be able to acquire such licences/permits, when appropriate, but there can be no assurance that such rights will ultimately be obtained.

***d) Licences are subject to renewal***

All tenements in which Aura has interests are subject to renewal conditions. The granting, maintenance and renewal of licenses often depends on Aura being successful in obtaining the required statutory approvals for proposed activities. Whilst Aura anticipates that subsequent renewals will be given as and when sought, there is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed.

***e) Title to mineral properties***

While Aura has undertaken all the customary due diligence in the verification of title to its mineral properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. The court systems in the foreign countries where Aura operates may not provide an adequate forum for the recognition and enforcement of the Company's legal rights.

***f) Competition for access to land, resources and personnel***

Mines have limited lives and, as a result, Aura will have to continually seek to replace and expand its reserves through the acquisition of new properties. Competition in the mineral exploration and development business is intense and could adversely affect the Company's ability to develop its properties. Aura competes with other mining companies for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel, many of which have greater financial and operational resources than Aura.

***g) Insurance does not cover all of the potential losses, liabilities and damage***

Exploration, development and production of mineral properties involve numerous risks. It is not always possible to obtain insurance against all risks and Aura may decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Aura or to other companies in the mining industry on acceptable terms.

***h) Mineral resource estimates***

Aura cannot give any assurance that the estimated mineral resources will be recovered if Aura proceeds to production or that they will be recovered at the volume, grade and rates estimated. The failure of Aura to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, profitability, results of operations and financial condition. These production estimates are dependent on, among other things, the accuracy of mineral reserve and resource estimates and the accuracy of assumptions regarding ore grades and recovery rates.

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**6. RISKS AND UNCERTAINTIES (continued)**

***i) Mining activities are subject to environmental risks and regulations***

Mining is an industry which has become subject to increasing environmental responsibility and liability. Aura's activities are subject to laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment. The potential for liability is an ever-present risk. Aura cannot give any assurance that, despite its precautions, breaches of environmental laws (whether inadvertent or not) or environmental pollution will not materially or adversely affect its financial condition and its results from operations.

***j) Operations are subject to government regulation and permitting***

Aura's mineral exploration and planned development activities are subject to various laws governing prospecting, mining development and production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use and other matters. Although Aura's exploration and planned development activities are currently believed by Aura to be carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development.

***k) Market price of common shares***

Securities of small-cap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include global macroeconomic developments and market perceptions of the attractiveness of particular industries. The price of the common shares is also likely to be significantly affected by changes in the price of commodities or in Aura's financial condition. If an active market for the common shares does not continue, the liquidity of an investor's holding in the Company may be limited and the price of the common shares may decline. As a result of any of these factors, the market price of the common shares at any given point in time may not accurately reflect the long-term value of Aura.

***l) Operating in foreign jurisdictions***

Aura's operations in Liberia, Sierra Leone and Cameroon are exposed to various levels of political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction. Changes, if any, in mining or investment policies or shifts in political attitude in any of the countries in which it operates may adversely affect Aura's operations.

***m) Exchange rate fluctuations***

Fluctuations in exchange rates may give rise to foreign currency exposure, either favourable or unfavourable, which may impact financial results. While Aura has historically raised a large proportion of its equity financing in UK pounds most of Aura's exploration costs, are denominated in U.S. dollars. It is the policy of African Aura to keep its cash in those currencies in operates with on a daily basis, namely US dollar, Euros, and sterling.

***n) Ability to raise external finance***

The Company's main activity is exploration and development so it will continue to require the injection of capital and other sources of finance to fund activities in the future. The Company has financed its operations by: entering into joint venture agreements with partners; raised finance through the sale of equity capital; placed unsecured convertible debentures; and sold assets. Although the Company has been successful in the past in obtaining finance, there is no assurance that it will be able to obtain adequate finance in the future or that such finance will be on terms advantageous to the Company.

***o) Mining is inherently dangerous***

Mining involves various types of risks and hazards, including: environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structure cave-ins or slides, flooding, fires and interruption due to inclement or hazardous weather conditions. To minimize risks in these areas, the Company provides training programs for employees. At this stage in its development the mining hazards facing Aura are limited.

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**6. RISKS AND UNCERTAINTIES (continued)**

***p) Non-controlled assets***

Some of the Company's assets are controlled and managed by joint venture partners who may have different business objectives. Management of non-controlled assets may not comply with the Company management and operating standards, controls and procedures (including health, safety and environment standards). Failure to adopt appropriate standards, controls and procedures as regards these joint ventures or improper management of these assets could affect the value of the joint venture and assets held by the joint venture.

The Company mitigates this risk by ensuring legal agreements are in place to protect its interests.

***q) Commodity Prices***

Is the risk that the price earned for minerals will fall to a point where it becomes uneconomic to extract them from the ground. During 2009 the price of commodities recovered from the low levels experienced in the second half of 2008. The principal metals in Aura's portfolio are iron ore and gold. The price of gold is dependent on many factors and although it has performed strongly in 2009/10 there is no assurance this will continue in the future. Iron ore prices are set by contract negotiations between suppliers and users in China and elsewhere. Ultimately the price of both metals is determined by supply and demand factors which are outside the control of the Company. The impact of commodity prices on the economics of Aura's advanced projects is kept under close review.

**7. MANagements RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS**

The unaudited interim consolidated financial statements of the Company for the nine months ended September 30, 2010 have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and have been approved by the Company's Audit Committee and Board of Directors.

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Management is also responsible for the design and maintenance of effective internal control over financial reporting to provide reasonable assurance regarding the integrity and reliability of the Company's financial information and the preparation of its financial statements in accordance with Canadian GAAP.

Management maintains appropriate information systems, procedures and controls to ensure the integrity of the financial statements and that information used internally and disclosed externally is complete and reliable.

Management of the Company, including Aura's Chief Executive Officer and Chief Financial Officer, do not expect that the Company's disclosure controls and internal control procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The management of the Company has no knowledge of any fraud having been committed in the Company.

However, given the nature of the business and geographical displacement, management is committed to continuously mitigate any risks and systematically improve operating controls where and when possible in a cost effective manner.

Management recognises the limitation of segregation of duties due to the size of the organisation and is committed to mitigating such risks by introducing compensatory controls.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and meets periodically with management and the external auditor to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its duties and responsibilities and to review the Annual Consolidated Financial Statements.

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**8. OUTLOOK**

The Company is now well positioned in its chosen commodities of gold and iron ore to pursue strategies that will maximise its value. The Board believes that the current value of the Company does not recognise fully its key assets. With this in mind the Board is planning to unlock the value of its iron ore and gold properties by separating these assets into two listed companies. African Aura will focus on developing the iron ore assets while a newly created company, Aureus Mining, will advance the gold assets.

Meanwhile, at project level, the Putu iron ore project in Liberia, in which the Company has a 38.5% interest, is making excellent progress. The pre-feasibility drilling is ahead of schedule with the remaining 40,000 metres of drilling, to be completed in 2011 with the objective of delivering an indicated resource estimate in the second half of next year.

The Nkout Iron ore project in the Cameroon is an exciting prospect over which the Company commenced a resource drilling programme in late July having completed an airborne survey in April 2010. The drilling at Nkout is designed to deliver an inferred resource estimate in the first quarter of 2011 with an upgrade to an indicated resource by the end of 2011.

Following the upgrade in the resource estimate at New Liberty, reported in November, the next key milestones are the Preliminary Economic Assessment to be released in December 2010 followed by a definitive feasibility study ("DFS") in Q3 2011. The DFS at New Liberty will include further drilling to identify more ounces of gold and upgrade the resource to reserve status. The environmental and social impact assessment which is a key aspect of the DFS commenced in August 2010. Exploration drilling will continue at the satellite prospects surrounding New Liberty with the aim of delivering 1 million ounces of additional resource.

The Company realises the importance of having the necessary skills and experience in the Company to deliver the key milestones. With this in mind the Company recently announced the appointment of David Reading as an independent director to the Board. When Aureus Mining is listed, David will lead the Company in the capacity of CEO. David has significant expertise in the global mining industry with over 35 years' experience across the fields of exploration, feasibility, project development and mining. In addition, simultaneously to this appointment, Dr Martin White joined the Company as DFS Project Manager.

To complement the project requirements, the Company needed to be fully funded. To this end, on Friday, 26 November 2010, the Company announced and successfully completed an underwritten accelerated bookbuild for approximately \$32 million (£20.3 million). The fund raising was substantially over-subscribed with the book closing in a matter of two hours demonstrating the strides made on the ground and from an investor perspective. The additional 13.5 million common shares to be issued were placed in London at 150 pence per common share representing a 2.3% discount to the previous day's closing. The admission of these new shares is expected to become effective this week and that dealings will commence on 2 December 2010. Completion of the Placing is also subject to receipt of applicable regulatory approvals, including the approval of the TSX Venture Exchange.

Finally, since the Company reported its Q2 results on August 30, the Board is pleased to report that the market capitalisation of the Company almost doubled from Cdn\$92 million to Cdn\$177 million at the time of writing this announcement, and reached a record high of Cdn\$198 million in early November. This was based on delivering results from the projects and meeting the stated project milestones. The Board is confident that the proposed restructuring plans already announced will further enhance shareholder value.

On Behalf of the Board,  
AFRICAN AURA MINING INC.

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