

Interim Consolidated Financial Statements

African Aura Mining Inc.

For The Six Months Ended June 30, 2010
(Stated in U.S. Dollars)

(Unaudited)

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AFRICAN AURA MINING INC.

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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 six months ended June 30, 2010.

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.

Consolidated Balance Sheet

As at June 30, 2010

(Stated in U.S. dollars)

| | June 30, 2010 \$ (unaudited) | December 31, 2009 \$ (audited) |
|---|------------------------------------|--------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 13,603,133 | 3,695,796 |
| Accounts receivable | 4,411,412 | 4,414,215 |
| Inventories | - | 220,826 |
| | 18,014,545 | 8,330,837 |
| Non-current assets | | |
| Investment in associates (Note 5) | 15,605,340 | 7,200,097 |
| Property, plant and equipment (Note 6) | 920,198 | 11,499,181 |
| Resource properties (Note 7) | 7,601,661 | 10,059,428 |
| Deferred exploration costs (Note 7) | 23,962,479 | 22,378,268 |
| Total assets | 66,104,223 | 59,467,811 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 1,226,486 | 2,288,447 |
| Convertible debentures (Note 9) | 3,268,077 | 3,399,762 |
| Interest payable on convertible debentures | 49,040 | 120,924 |
| Embedded derivative | - | 125,388 |
| Due to associate | 816,661 | - |
| Due to related parties (Note 11) | - | 169,711 |
| Due to joint venture partner | - | 709,753 |
| | 5,360,264 | 6,813,985 |
| Non-current liabilities | | |
| Convertible debentures (Note 9) | - | 396,078 |
| Asset retirement obligation | - | 54,369 |
| Total liabilities | 5,360,264 | 7,264,432 |
| Shareholders' equity | | |
| Share capital (Notes 10a) | 67,549,267 | 50,637,085 |
| Contributed surplus (Notes 10c) | 6,996,153 | 5,292,619 |
| Warrant reserve (Notes 10d) | - | 2,808 |
| Equity component of convertible debentures | 2,637,802 | 2,637,802 |
| Accumulated other comprehensive loss | (21,755) | (21,755) |
| Deficit | (16,417,508) | (11,386,831) |
| Non-controlling interest | - | 5,041,651 |
| Total shareholders' equity | 60,743,959 | 52,203,379 |
| Total liabilities and shareholders' equity | 66,104,223 | 59,467,811 |

The accompanying notes are an integral part of these 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 NETHERWAY, DIRECTOR

David Netherway

African Aura Mining Inc.

Consolidated Statements of Income/(Loss) and Comprehensive Income/(Loss)

For the six months ended June 30, 2010

(Stated in U.S. dollars)

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---|---|--|---|--------------------------------------|
| | \$ (unaudited) | \$ (unaudited) | \$ (unaudited) | \$ (unaudited) |
| Revenues | - | 204,544 | 320,367 | 204,544 |
| Net sales | | | | |
| Operating expenses | | | | |
| Depreciation, depletion and amortization (Note 6) | - | 655,236 | 246,145 | 655,236 |
| Other operating expenses | - | 443,513 | 514,861 | 443,513 |
| Gross loss | - | (894,205) | (440,639) | (894,205) |
| Expenses | | | | |
| Administrative and office expenses | 134,845 | 532,637 | 419,586 | 758,626 |
| Directors fees | 57,869 | 199,866 | 167,794 | 268,422 |
| Foreign exchange (gain)/loss | 773,304 | (18,568) | 636,674 | 7,398 |
| Management fees | 44,295 | 121,597 | 129,611 | 227,386 |
| Interest on convertible debentures | 210,896 | 286,826 | 585,006 | 535,956 |
| Professional fees | 249,336 | 536,033 | 533,096 | 591,886 |
| Stock-based compensation (Note 10c) | 857,053 | 375,342 | 1,703,534 | 434,742 |
| Transfer agent and filing fees | 90,831 | 17,502 | 99,389 | 37,984 |
| Project impairment (Note 7) | 2,504,604 | 500,371 | 2,504,604 | 522,287 |
| Depreciation (Note 6) | 63,691 | 3,724 | 154,925 | 14,813 |
| | (4,986,724) | (2,555,330) | (6,934,219) | (3,399,500) |
| Other income/(loss) | | | | |
| Unrealised (loss)/gain on convertible debentures (Note 9) | (7,914) | (367,206) | 168,448 | (327,647) |
| Share in results of associates (Note 5) | (855,746) | 39,284 | (1,065,951) | 125,484 |
| Dilution (loss)/gain on shares issued by controlled company | - | (52,669) | - | (52,669) |
| Gain on disposal of subsidiary (Note 4) | - | - | 2,913,773 | - |
| Loss on disposal of assets | - | (27,023) | - | (27,023) |
| Interest income | 5,486 | 1,143 | 12,980 | 2,657 |
| Loss and comprehensive loss | (5,844,898) | (3,856,006) | (5,345,608) | (4,572,903) |
| Loss and Total comprehensive loss for the period | | | | |
| Attributable to: | | | | |
| Owners of the parent | (5,844,898) | (2,923,267) | (5,033,485) | (3,534,347) |
| Non-controlling interest | - | (932,739) | (312,123) | (1,038,556) |
| | (5,844,898) | (3,856,006) | (5,345,608) | (4,572,903) |
| Basic and diluted loss per share | (0.098) | (0.097) | (0.089) | (0.115) |
| Weighted average number of shares outstanding | 59,747,304 | 39,726,352 | 59,747,304 | 39,726,352 |

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

African Aura Mining Inc.

Consolidated Statements of Cash Flow

For the six months ended June 30, 2010

(Stated in U.S. dollars)

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---|--|--|--------------------------------------|--------------------------------------|
| | \$ | \$ | \$ | \$ |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Operating activities | | | | |
| Loss for the period | (5,844,898) | (2,923,267) | (5,345,608) | (3,534,347) |
| Items not involving cash: | | | | |
| Gain on disposal of subsidiary | - | - | (2,913,773) | - |
| Share in results of associate | 855,746 | (39,284) | 1,065,951 | (125,484) |
| Dilution loss on shares issued by controlled company | - | 52,669 | - | 52,669 |
| Non-controlling interest | - | (932,739) | - | (1,038,556) |
| Stock-based compensation | 857,053 | 375,342 | 1,703,534 | 434,742 |
| Interest income | (5,486) | (1,113) | (12,980) | (2,657) |
| Interest on convertible debentures | 210,896 | 286,826 | 585,006 | 535,956 |
| Unrealised foreign exchange loss/(gain) on convertible debentures | 7,914 | 367,246 | (168,448) | 327,647 |
| Unrealised foreign exchange gain | (8,097) | - | (32,508) | - |
| Project impairment (Note 7) | 2,504,604 | 500,371 | 2,504,604 | 522,287 |
| Depreciation of property, plant and equipment | 63,691 | 658,960 | 401,070 | 670,049 |
| Loss on sale of fixed assets | - | 27,023 | - | 27,023 |
| Changes in working capital: | | | | |
| Accounts receivable | 5,527 | (55,233) | (25,420) | 75,221 |
| Inventories | - | (303,223) | 181,363 | (303,223) |
| Accounts payable and accrued liabilities | (1,239,718) | 1,272,830 | (571,685) | 804,929 |
| Due to associate | (81,509) | - | 568,571 | - |
| | (2,674,277) | (713,592) | (2,060,323) | (1,553,744) |
| Investing activities | | | | |
| Disposal of subsidiary (Note 4) | - | - | (69,382) | - |
| Deferred exploration costs | (1,851,356) | (981,943) | (4,607,046) | (2,690,594) |
| Interest received | 5,486 | 1,113 | 12,980 | 2,657 |
| Purchase of property, plant and equipment | (143,542) | (134,089) | (202,482) | (265,179) |
| | (1,989,412) | (1,114,919) | (4,865,930) | (2,953,116) |
| Financing activities | | | | |
| Issuance of share capital (net of costs) | 16,912,182 | - | 16,912,182 | - |
| Proceeds of convertible debenture in subsidiary | - | 374,991 | - | 374,991 |
| Interest paid on convertible debentures | (77,551) | (88,326) | (162,938) | (161,910) |
| Proceeds from issue of shares in subsidiary | - | 160,747 | - | 160,747 |
| Due to related parties | (36,472) | 165,538 | 59,935 | 62,831 |
| | 16,798,159 | 612,950 | 16,809,179 | 436,659 |
| Impact of foreign exchange on cash balance | - | - | 24,411 | - |
| Net cash inflow/(outflow) | 12,134,470 | (1,215,561) | 9,907,337 | (4,070,201) |
| Cash, Beginning of the period | 1,468,663 | 6,023,266 | 3,695,796 | 8,877,906 |
| Cash, End of the period | 13,603,133 | 4,807,705 | 13,603,133 | 4,807,705 |

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

African Aura Mining Inc.

Consolidated Statement of Shareholders' Equity For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

| | Common shares | | Contributed surplus \$ | Warrant reserve \$ | Equity component of convertible debentures \$ | Deficit accumulated in the development stage \$ | Accumulated other comprehensive deficit \$ | Non-controlling interest \$ | Total shareholders' equity \$ |
|--|-------------------|-------------------|---------------------------|-----------------------|--|--|---|--------------------------------|----------------------------------|
| | Number | Amount \$ | | | | | | | |
| Balance at January 1, 2009 | 39,726,376 | 37,963,124 | 4,488,976 | 548,000 | 2,637,802 | (4,098,885) | (21,755) | 9,011,297 | 50,528,559 |
| Loss for the year | - | - | - | - | - | (7,739,218) | - | (4,543,204) | (12,282,422) |
| Expired warrants | - | - | - | (548,000) | - | 548,000 | - | - | - |
| Dilution loss | - | - | - | - | - | (96,728) | - | 96,728 | - |
| Total comprehensive loss | - | - | - | (548,000) | - | (7,287,946) | - | (4,446,476) | (12,282,422) |
| Issued on acquisition | 13,158,080 | 12,691,148 | 524,518 | 2,808 | - | - | - | - | 13,218,474 |
| Shares issued | - | - | - | - | - | - | - | 321,213 | 321,213 |
| Share issuance costs | - | (17,187) | - | - | - | - | - | - | (17,187) |
| Stock-based compensation | - | - | 434,742 | - | - | - | - | - | 434,742 |
| Non-controlling interest in stock-based compensation | - | - | (155,617) | - | - | - | - | 155,617 | - |
| Balance at December 31, 2009 | 52,884,456 | 50,637,085 | 5,292,619 | 2,808 | 2,637,802 | (11,386,831) | (21,755) | 5,041,651 | 52,203,379 |
| Income/(Loss) and Total comprehensive income (loss) for the period | - | - | - | - | - | (5,033,485) | - | (312,123) | (5,345,608) |
| Shares issued (Note 10a) | 17,398,770 | 17,411,030 | - | - | - | - | - | 524,917 | 17,935,947 |
| Share issuance costs (Note 10a) | - | (498,848) | - | - | - | - | - | - | (498,848) |
| Disposal of subsidiary (Note 4) | - | - | - | - | - | - | - | (5,254,445) | (5,254,445) |
| Stock-based compensation (Note 10b) | - | - | 1,703,534 | - | - | - | - | - | 1,703,534 |
| Expired warrants (Note 10d) | - | - | - | (2,808) | - | 2,808 | - | - | - |
| Balance at June 30, 2010 | 70,283,226 | 67,549,267 | 6,996,153 | - | 2,637,802 | (16,417,508) | (21,755) | - | 60,743,959 |

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

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

1. Nature of operations

African Aura Mining Inc. ("African Aura" or "the Company") commenced operations on July 10, 1996 and is engaged in the acquisition, exploration and development of gold, iron ore and diamond properties. The Company changed its name from Mano River Resources Inc. to African Aura on October 13, 2009, the day it completed its acquisition of African Aura Resources Limited ("AAR").

2. Basis of preparation

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with the accounting principles that have been applied in the consolidated financial statements for the year ended December 31, 2009. The unaudited interim consolidated financial statements do not include disclosures required by generally accepted accounting principles in Canada ("Canadian GAAP") for annual consolidated financial statements and accordingly they should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2009.

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.

On April 20, 2010 the Company completed a private stock placement raising \$17.4 million gross (£11.3 million), principally to fund New Liberty Gold deposit in Liberia, Nkout the iron ore project in Cameroon and Weaju. No funds were raised for Putu Iron Ore project as arrangements are in place to finance Putu towards a pre-feasibility study. At June 30, 2010 the Company had cash and cash equivalents of \$13.6 million in hand and the directors believe that this amount will be sufficient to progress the Company's key projects and to finance general overhead costs for the foreseeable future.

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.

The United States dollar has been identified as the Company's currency of measurement and is used for external reporting purposes.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

3. Accounting standards and recent pronouncements

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

4. Investment in Stellar Diamonds plc

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 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 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, African Aura'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 \$37,500.

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

- derecognized the assets and liabilities of and non-controlling interest in Stellar at their carrying amounts 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.

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

4. Investment in Stellar Diamonds plc (continued)

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

| | \$ |
|---|--------------------|
| Current assets | |
| Cash and cash equivalents | 69,382 |
| Accounts receivable | 28,223 |
| Due from African Aura group companies | 248,090 |
| Inventories | 39,463 |
| | <u>385,158</u> |
| Non-current assets | |
| Property, plant and equipment (Note 6) | 10,388,492 |
| Deferred exploration costs (Note 7) | 2,975,998 |
| | <u>13,364,490</u> |
| Total assets disposed | <u>13,749,648</u> |
| Current liabilities | |
| Accounts payable and accrued liabilities | 490,276 |
| Interest payable on convertible debenture (Note 9) | 51,336 |
| Embedded derivative (Note 9) | 125,388 |
| Due to related parties | 20,970 |
| Due to joint venture partners | 709,753 |
| | <u>(1,397,723)</u> |
| Non-current liabilities | |
| Convertible debenture (Note 9) | 485,690 |
| Asset retirement obligation | 54,369 |
| | <u>(540,059)</u> |
| Total liabilities derecognized | <u>1,937,782</u> |
| Minority interest derecognized | <u>(5,254,445)</u> |
| Net assets and non-controlling interest disposed | <u>6,557,421</u> |
| Total consideration and on-going investment in associate | <u>9,471,194</u> |
| Net assets and non-controlling interest disposed | <u>6,557,421</u> |
| Gain on disposal of Stellar | <u>2,913,773</u> |

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

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

5. Investments 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) has been diluted to 31.8% on February 22, 2010 and therefore, 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:

| | \$ |
|--------------------------------|-------------------|
| At January 1, 2010 | 7,200,097 |
| Investment in Stellar (Note 4) | 9,471,194 |
| Share in result of associates | (1,065,951) |
| At June 30, 2010 | <u>15,605,340</u> |

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

6. Property, plant and equipment

| | Mining assets \$ | Machinery and equipment \$ | Total \$ |
|---------------------------------|------------------------|----------------------------------|-------------------|
| Cost | | | |
| At January 1, 2010 | 10,692,283 | 2,388,232 | 13,080,515 |
| Additions | - | 202,482 | 202,482 |
| Disposal of subsidiary (Note 4) | (10,692,283) | (1,423,221) | (12,115,504) |
| At June 30, 2010 | <u>-</u> | <u>1,167,493</u> | <u>1,167,493</u> |
| Depreciation | | | |
| At January 1, 2010 | 741,362 | 839,972 | 1,581,334 |
| Charge for the period | 246,145 | 154,925 | 401,070 |
| Foreign exchange | - | (8,097) | (8,097) |
| Disposal of subsidiary (Note 4) | (987,507) | (739,505) | (1,727,012) |
| At June 30, 2010 | <u>-</u> | <u>247,295</u> | <u>247,295</u> |
| Net book value | | | |
| At June 30, 2010 | <u>-</u> | <u>920,198</u> | <u>920,198</u> |
| At January 1, 2010 | <u>9,950,921</u> | <u>1,548,260</u> | <u>11,499,181</u> |

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

7. Resource properties and deferred exploration costs

| | January 1, 2010 \$ | Impairment \$ | June 30, 2010 \$ |
|-----------------------------|--------------------------|--------------------|-------------------------|
| Resource properties: | | | |
| Liberia | | | |
| 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> |
| Cameroon | | | |
| Batouri | 4,091,266 | - | 4,091,266 |
| Djourn | 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>-</u> | <u>6,374,661</u> |
| Sierra Leone | | | |
| 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>(2,457,767)</u> | <u>7,601,661</u> |

The resource properties and deferred exploration costs relating to North Bea amounting to \$2.5 million have been impaired following the directors' review of assets acquired from the acquisition of African Aura Resources Limited.

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

7. Resource properties and deferred exploration costs (continued)

| | January 1, 2010 \$ | Additions \$ | Disposal of subsidiary (Note 4) \$ | Impairment \$ | June 30, 2010 \$ |
|------------------------------------|--------------------------|------------------|---|------------------|------------------------|
| Deferred exploration costs: | | | | | |
| Liberia | | | | | |
| Bea | 16,996,448 | 2,970,901 | - | - | 19,967,349 |
| Weaju | 757,598 | 195,114 | - | - | 952,712 |
| Gondoja | 34,348 | - | - | - | 34,348 |
| North Bea | 39,653 | 7,184 | - | (46,837) | - |
| Silver Hills | 3,009 | 6,869 | - | - | 9,878 |
| Ndablama | - | 6,115 | - | - | 6,115 |
| | <u>17,831,056</u> | <u>3,186,183</u> | <u>-</u> | <u>(46,837)</u> | <u>20,970,402</u> |
| Cameroon | | | | | |
| Batouri | 330,158 | 46,961 | - | - | 377,119 |
| Ntem | 8,280 | 24,195 | - | - | 32,475 |
| Akonolinga | 906 | 2,721 | - | - | 3,627 |
| Djourn | 4,339 | 1,326,784 | - | - | 1,331,123 |
| Ekomedion | 24,322 | 16,677 | - | - | 40,999 |
| Rey Bouba | - | 783 | - | - | 783 |
| Tchollire | - | 4,517 | - | - | 4,517 |
| | <u>368,005</u> | <u>1,422,638</u> | <u>-</u> | <u>-</u> | <u>1,790,643</u> |
| Sierra Leone | | | | | |
| Kono | 1,919,194 | 7,302 | (1,926,496) | - | - |
| Sonfon | 1,202,093 | (659) | - | - | 1,201,434 |
| Tongo | 702,360 | 660 | (703,020) | - | - |
| | <u>3,823,647</u> | <u>7,303</u> | <u>(2,629,516)</u> | <u>-</u> | <u>1,201,434</u> |
| Guinea | | | | | |
| Bouro | 180,995 | - | (180,995) | - | - |
| Druzhba and ex De Beers | 159,289 | - | (159,289) | - | - |
| Ouria | 15,276 | (9,078) | (6,198) | - | - |
| | <u>355,560</u> | <u>(9,078)</u> | <u>(346,482)</u> | <u>-</u> | <u>-</u> |
| | 22,378,268 | 4,607,046 | (2,975,998) | (46,837) | 23,962,479 |

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

7. Resource properties and deferred exploration costs (continued)

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---|--|--|--------------------------------------|--------------------------------------|
| | \$ | \$ | \$ | \$ |
| Deferred exploration costs | | | | |
| Assays incl. shipment | 42,622 | (875) | 120,872 | 6,650 |
| Communications incl. equipment | 12,128 | 1,935 | 22,067 | 12,342 |
| Community relations | 135,874 | 15,674 | 198,406 | 54,079 |
| Consultants and professional fees | 102,491 | 463,069 | 171,399 | 490,747 |
| Data, images, reports and maps | - | 500 | - | 3,900 |
| Drilling | 559,428 | (6,676) | 1,926,972 | - |
| Geophysical | 82,022 | - | 369,551 | - |
| Infrastructure incl. roads and bridges | 241,536 | - | 318,243 | 116,541 |
| Licenses and permit fees | (2,671) | 13,750 | 22,131 | 9,794 |
| Project/field office costs incl. field equipment | 181,068 | 276,625 | 451,206 | 375,627 |
| Salaries and wages | 283,128 | 89,536 | 646,125 | 516,644 |
| Subsistence | 30,544 | 7,017 | 78,388 | 14,258 |
| Transportation incl. vehicles | 190,488 | 1,251 | 281,686 | 296,170 |
| Kono (Petra) joint venture | (7,302) | 117,137 | - | 817,744 |
| Net expenditure during the year | 1,851,356 | 978,943 | 4,607,046 | 2,714,496 |
| Impairment during the period | (46,837) | (500,371) | (46,837) | (522,287) |
| Transfer of Mandala costs to Property, plant and equipment | - | (2,570,252) | - | (2,570,252) |
| Disposal of Stellar Diamonds | - | - | (2,975,998) | - |
| Balance, Beginning of the period | 22,157,960 | 29,030,079 | 22,378,268 | 27,316,442 |
| Balance, End of the period | 23,962,479 | 26,938,399 | 23,962,479 | 26,938,399 |

8. Joint ventures and Project agreements

Following the deemed disposal of Stellar Diamonds Limited as set out in Note 4, the diamond projects are no longer controlled by Company.

There have been no other significant changes to the joint venture and project agreements during the period.

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

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9. Convertible debentures

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

| | June 30, 2010 | December 31, 2009 |
|---|--------------------------|----------------------|
| | \$ | \$ |
| Opening balance | 3,795,840 | 2,048,638 |
| Fair value accretion | 401,366 | 781,212 |
| Unrealised foreign currency exchange (gain)/loss | (168,448) | 205,309 |
| Net proceeds from issue of Stellar convertible loan notes | - | 727,773 |
| Conversion of Stellar convertible debentures to equity | (274,991) | - |
| Disposal of Stellar | (485,690) | - |
| Fair value accretion on Stellar convertible loan notes | - | 32,908 |
| Closing balance | 3,268,077 | 3,795,840 |
| Included in current liabilities | 3,268,077 | 3,399,762 |
| Included in non-current liabilities | - | 396,078 |
| | 3,268,077 | 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 as discussed in Note 4.

During the period ended June 30, 2010 the total interest expense charged to the consolidated statement of income/(loss) for the above convertible debentures is \$585,006 (2009: \$535,956) including the accretion of the loan to its future value. Included in the consolidated statement of income/(loss) for the period ended June 30, 2010 is \$168,448 as an unrealised foreign currency exchange rate gain (2009: loss of \$327,647), as the debentures are denominated in sterling.

10. Share capital

(a) *Common stock*

On April 20, 2010, the Company announced that it has conducted a private placing raising gross proceeds of £11.3 million (\$17.4 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 total over £450,000.

The Placing Price represents 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.

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Notes to the Consolidated Financial Statements

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(Stated in U.S. dollars)

10. Share capital (continued)

(b) *Stock options in the Company*

A summary of the status of the Company's Stock Option Plan as at June 30, 2010 and December 31, 2009 and changes during the six month period and the year, respectively, are as follows:

| | June 30, 2010 | | December 31, 2009 | |
|---------------------------------------|-------------------|---|-------------------|---|
| | Number of options | Weighted average exercise price per share Cdn\$ | Number of options | Weighted average exercise price per share Cdn\$ |
| Beginning of the period | 3,359,806 | 1.42 | 2,255,000 | 1.68 |
| Options granted on acquisition of AAR | - | - | 794,806 | 1.30 |
| Other options granted | 2,458,750 | 1.24 | 650,000 | 0.80 |
| Options expired | - | - | (340,000) | 1.92 |
| End of the period | 5,818,556 | 1.34 | 3,359,806 | 1.42 |

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

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

The options granted during the period have resulted in a charge to the consolidated statement of 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.

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For the six months ended June 30, 2010 (unaudited)

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10. Share capital (continued)

Below is the summary of the outstanding stock options:

| Expiry date | June 30, 2010 | | December 31, 2009 | |
|------------------|---------------------------------------|---|---------------------------------------|---|
| | Exercise price per share Cdn \$ | Number of stock options outstanding | Exercise price per share Cdn \$ | Number of stock options outstanding |
| July 25, 2010 | 1.76 | 327,500 | 1.76 | 327,500 |
| July 31, 2011 | 1.84 | 344,375 | 1.84 | 344,375 |
| March 16, 2012 | 1.84 | 75,000 | 1.84 | 75,000 |
| May 20, 2012 | 1.84 | 37,500 | 1.84 | 37,500 |
| January 17, 2013 | 1.60 | 1,130,625 | 1.60 | 1,130,625 |
| July 1, 2013 | 2.80 | 63,780 | 2.80 | 63,780 |
| January 19, 2014 | 0.80 | 650,000 | 0.80 | 650,000 |
| June 6, 2015 | 0.41 | 181,530 | 0.41 | 181,530 |
| December 1, 2015 | 0.84 | 235,498 | 0.84 | 235,498 |
| December 1, 2015 | 1.25 | 98,124 | 1.25 | 98,124 |
| December 1, 2015 | 1.67 | 29,437 | 1.67 | 29,437 |
| January 1, 2017 | 1.43 | 19,625 | 1.43 | 19,625 |
| June 28, 2017 | 2.29 | 166,812 | 1.43 | 166,812 |
| January 8, 2015 | 1.22 | 1,208,750 | - | - |
| May 13, 2015 | 1.25 | 1,250,000 | - | - |
| | | 5,818,556 | | 3,359,806 |

(d) Share purchase warrants

The share purchase warrants issued on acquisition of African Aura Resources Limited on October 13, 2009 expired during the period.

11. Related party transactions

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

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---|--|--|--------------------------------------|--------------------------------------|
| | \$ | \$ | \$ | \$ |
| Incurring management service fee with a company related by a director in common | - | - | - | 59,308 |
| Incurring management fees by directors | 56,189 | 143,541 | 182,345 | 265,742 |
| Incurring directors fees | 115,056 | 175,126 | 167,794 | 243,682 |
| | 171,245 | 318,667 | 350,139 | 568,732 |

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.

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Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

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11. Related party transactions (continued)

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

| | June 30, 2010 | December 31, 2009 |
|----------------------|--------------------------|----------------------|
| | \$ | \$ |
| Directors' companies | - | 9,499 |
| Various directors | - | 160,213 |
| | <u>-</u> | <u>169,712</u> |

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

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

12. 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 June 30, 2010.

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

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13. Financial instruments and financial risk management

The Company's financial assets and liabilities are cash, accounts receivable, accounts payable and accrued liabilities, due to associate, due to/from joint venture partner, due to related parties, convertible debentures and embedded derivatives. The fair values of these financial instruments are estimated to approximate their carrying values due to their immediate or short-term nature.

The carrying amounts for the financial instruments are as follows:

| | June 30, 2010 | December 31, 2009 |
|--|--------------------------|----------------------|
| | \$ | \$ |
| Financial assets: | | |
| <i>Held for trading</i> | | |
| Cash | 13,603,133 | 3,695,796 |
| <i>Loans and receivables, measured at amortised cost</i> | | |
| Accounts receivable | 4,411,412 | 4,414,215 |
| | 18,014,545 | 8,110,011 |
| Financial liabilities: | | |
| <i>Other liabilities, measured at amortised cost</i> | | |
| Accounts payable and accrued liabilities | 1,226,486 | 2,119,693 |
| Convertible debentures | 3,268,077 | 3,795,840 |
| Interest payable on convertible debentures | 49,040 | 120,924 |
| Due to associate | 816,661 | - |
| Due to joint venture partner | - | 709,753 |
| Due to related parties | - | 169,711 |
| | 5,360,264 | 6,915,921 |
| <i>Other liabilities, measured at fair value through profit and loss</i> | | |
| Embedded derivative | - | 125,388 |

In the normal course of its operations, the Company is exposed to currency, interest rate, liquidity and credit risks.

African Aura Mining Inc.

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 (unaudited)

(Stated in U.S. dollars)

13. Financial instruments and financial risk management (continued)

Foreign currency risk

In the normal course of business, the Company enters into transactions denominated in foreign currencies (primarily Pound Sterling, Canadian Dollars, Communauté Financière Africaine Franc and Euros). As a result, the Company is subject to exposure from fluctuations in foreign currency exchange rates. In general, the Company does not enter into derivatives to manage these currency risks. The Company attempts to reduce its exposure to currency risk by entering into contracts denominated in US Dollars whenever possible. There are no outstanding currency forward contracts as of June 30, 2010 and December 31, 2009.

Interest rate and liquidity risk

Fluctuations in interest rates impact on the value of short term cash investments and interest payable on financing activities (including long term loans), giving rise to interest rate risk. The Company has historically been able to actively source financing through public offerings, corporate dealings or issuing fixed rate convertible debentures. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks. In the ordinary course of business, the Company is required to fund working capital and capital expenditure requirements. The Company typically holds financial assets with a maturity of less than 30 days to ensure adequate liquidity and flexibility.

Due to the short maturity of the financial assets and the fixed rate of interest on the convertible debentures, if interest rates were to double, it would have an insignificant impact on the Company's financial performance.

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

Credit risk

The Company's maximum credit risk exposure is in connection with the cash and cash equivalents held with financial institutions and the amount receivable from Severstal. The Company manages its risk by holding surplus funds in high credit worthy financial institutions and maintains minimum balances with financial institutions in remote locations.