AFRICAN AURA MINING INC.

Management's Discussion and Analysis
For the year ended December 31, 2010

Contents

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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 twelve months to December 31, 2010. This management discussion and analysis has been prepared based on information available to the Company as at March 31, 2011. Unless otherwise indicated all amounts are in US dollars.

Additional information relating to the Company, including the Annual Information Form, is available on SEDAR at www.sedar.com or on the Company's website at www.african-aura.com.

1. OVERVIEW

(a) DESCRIPTION OF BUSINESS

African Aura is an exploration and development stage company focused on gold and iron ore projects in west Africa and operates in Liberia, Cameroon and through a joint venture in Sierra Leone. Its most advanced projects are the New Liberty Gold Project in Liberia (100% interest), Putu Iron Ore Project in Liberia (38.5% interest) and the Nkout Iron Ore Project in Cameroon (100% interest). Aura's diamond interests are held through a 22.1% equity interest in Stellar Diamonds plc ("Stellar" or "Stellar Diamonds") which is listed on the AIM Market of the London Stock Exchange. 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 ("WAD"). Shares began trading in Stellar (ticker: STEL) on February 22, 2010.

As a result of Stellar issuing new shares at the same time as the reverse takeover Aura's interest in Stellar reduced and therefore Stellar is no longer a subsidiary of the Company; it is now treated as an investment in an associate in the consolidated 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 will continue to focus on iron ore and gold in sub-Saharan Africa where it has experience, strength and depth.

The Board is proposing to split African Aura into two companies, with Aura (to be renamed Afferro Mining Inc.) focusing on the iron ore assets and Aureus Mining Inc. ("Aureus") focussing on the gold assets. With this in mind Aura has entered into an arrangement agreement with Aureus to complete a restructuring of its assets by way of a court and shareholder approved plan of arrangement. The EGM is scheduled to take place on April 5, 2011 with the effective date of the plan of arrangement expected to be April 13, 2011. Aureus will be listed on the TSX and AIM approximately 5 days after the effective date.

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 an expected 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 estimate of 2.4Bt grading 34% iron;
- The 100% owned New Liberty Gold 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 7Mt grading 3.40 g/t for 762,000 ounces in the inferred category). The definitive feasibility study is currently underway and is scheduled to be completed by end December 2011;
- The Nkout Iron Ore Project in Cameroon, where the Company recently announced a NI 43-101 compliant inferred resource estimate of 1.04Bt grading 34% iron;
- A promising portfolio of exploration stage gold projects in Liberia and Cameroon; and
- The Sonfon joint venture in Sierra Leone with Golden Star.

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. Of the seven directors six are independent.

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. 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:

Country	Project	Commodity	Status at Dec 31, 2010	2011 Plans	African Aura Ownership	Financial Statements
Liberia	Putu	Iron ore	MDA awarded; camp completed	Continue with PFS; upgrade resource to indicated (see section 2)	38.5%	Associate
Cameroon	Nkout	Iron ore	1Bt resource delivered	Increase resource by Dec 2011	100%	Subsidiary
Liberia	New Liberty	Gold	Upgrade in resource and positive preliminary economic assessment	Definitive Feasibility Study by Dec 2011	100%	Subsidiary[1]
Liberia	Ndablama	Gold	Trenching completed, Phase I drilling nearing completion	Phase I to be completed followed by Phase II	100%	Subsidiary[1]
Liberia	Weaju	Gold	Camp infrastructure upgraded	Drilling planned in 2011	100%	Subsidiary[1]
Sierra Leone	Sonfon	Gold	Exploration and initial drilling completed	Continued exploration and drilling planned	49%	Subsidiary[2]

1 Licences are held by Bea Mountain Aura's Liberian subsidiary

2 Only the Company's share of the expenditure is recorded

2. EXPLORATION PROJECTS

(a) IRON ORE DIVISION

(i) Putu Iron Ore, Liberia

Introduction

The Putu Iron Ore Project is located in the south-east of Liberia in Grand Gedeh County, approximately 320 Km to the south-east of the capital city of Monrovia. The Project is a joint ownership between African Aura (38.5%) and Severstal (61.5%), the licence for which is held by Putu Iron Ore Mining Inc ("PIOM"). 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. Both companies are now funding the on-going development in proportion to their shareholding.

Mineral Development Agreement ("MDA")

The Putu Project MDA was granted by the Government of the Republic of Liberia on September 2, 2010, and was subsequently ratified by the Legislature of the Republic of Liberia on September 9, 2010.The MDA provides for the development and construction of the Putu Project for a period of twenty-five years and includes a two year extension for exploration until September 30, 2012. Pursuant to the MDA, the project will be subject to a production royalty of 4.5% and includes terms relating to customs fees, profit and withholding taxes and service charges, for the first fifteen years of the Putu Project MDA following the completion of a definitive feasibility study and the satisfaction of other conditions, subject to five annual reviews thereafter. In addition, Putu Iron is required to: (i) commit to corporate and social responsibility initiatives amounting to $15.75 million until 2017 and, on an annual basis for the remaining term of MDA, the greater of $3 million per year (inflation adjusted) and 0.5% of prior year taxable income; (ii) train local staff; (iii) contribute $100,000 per annum (increasing to $250,000 per annum following a definitive feasibility study and the satisfaction of other conditions) for local education, scholarships and training; (iv) contribute $100,000 per annum (inflation adjusted) to a scientific research fund; and (v) pay a signature fee of $10 million to the Government of the Republic of Liberia (to be paid in annual instalments until December 1, 2014).

Resource Upgrade

The Company announced the resource upgrade at Putu on February 7, 2011. SRK Consulting (UK) Ltd ("SRK") has estimated a total inferred mineral resource 2.4Bt grading 34% iron. Of this 185Mt is oxide material with a grade of 37.8% iron, 17Mt of haematite itabirite at 48.25% iron, and 2,173Mt of magnetite itabirite at 33.7% iron. In addition to the inferred mineral resource, there is potential for a further 1Bt to 2.5Bt of itabirite material, and 5Mt to 17Mt of oxide material, below the current modelled optimised pit shell. The deep structure has not yet been defined and therefore the deposit remains open at depth. In addition, the deposit is open along strike north of North Jideh, and south of South Jideh; however, the itabirite unit thins and may not be prospective further along strike.

In addition, the oxide domain contains material grading in excess of 60% iron,future exploration will target this material as potential may exist for direct shipping ore that could provide early cash flow to the project should it progress to the development stage.

It is the opinion of SRK that a large portion of the current inferred resource (based on drilling assays received up to January 10, 2011) will be upgraded to the indicated resource category. Additional drilling will be required to target mineralization at depth and within the western limb, and SRK recommended that the Company focus on the near surface oxidized resources with particular focus on the DSO potential.

Ongoing Exploration Programme

The following exploration activities and key objectives are currently planned for the Putu Project for 2011:

1. Completion of the 62,000m mineral resource delineation drilling program which commenced in May 2010. As at December 31, 2010, there were approximately 30,000m of drilling to complete as part of the pre-feasibility study;
2. Completion of an indicated mineral resource estimate (anticipated to occur in the second half of 2011);
3. Undertake further laboratory and pilot scale metallurgical testwork on drill core and bulk samples in order to provide data for comminution and beneficiation and plant design purposes;
4. Baseline studies, including a biodiversity study to evaluate flora and fauna in the area, hydrological studies to assess surface and sub-surface groundwater patterns, a social baseline study and a soils baseline study;
5. An international tender process will be completed to select the lead consultant for the pre-feasibility study;
6. Social and community projects, including a feasibility study on paving the road between the towns of Grenville and Zwedru, will be initiated;
7. Completion of an aerial survey in order to generate an accurate topographic surface for the indicated mineral resource estimate; and
8. Additional aerial and satellite imagery required to generate topographic data for the PFS rail and port infrastructure planning.

The provisional budget for 2011 is $32 million of which the Company is contributing approximately $12.3M in-line with its 38.5% interest in the project.

ii) Nkout Iron ore Project, Cameroon

Introduction

The Nkout Iron prospect is located in the Company's Djoum licence in southern Cameroon. The project was identified from interpretation of airborne magnetic and remote sensing data in 2006 whilst investigating gold occurrences in the 150 Km long, Sangemalina-Djoum Archaean greenstone belt. Djoum, the closest town to the Nkout prospect, is located 280 Km SE of the Nsimalen International Airport in Yaoundé. The route from Yaoundé incorporates 170 Km of macadam road and 110 Km of laterite road. The Nkout project area is located approximately 7.5 Km due south of the Djoum to Mbalam road. The terrain is typical of the southern tropical forest of Cameroon, characterised by dense jungle, rivers, swamps and areas of steep topography. The Nkout deposit is 100% owned by the Company. The highlights are:

- Ownership: 100%
- Resource: 1.04Bt at 34% Fe (from 3 Km section)
- Management Target: 4Bt
- Licence size: 998 Km^2
- Test work proves high grade concentrate and sinter fines potential
- Target: Major geophysical anomaly 20 Km in length
- Status: Resource definition drilling
- Current programme: 2011 drilling campaign underway (25,000m)
- Potential for direct shipping ore ("DSO") being investigated

Maiden Resource Estimate

The Company announced its maiden inferred mineral resource at Nkout on February 1, 2011. In total, SRK has estimated an inferred mineral resource of some 1.04Bt grading 34.2% iron. Of this, 7Mt grading 58% iron lies within a near surface high grade oxidized zone (Zone 110, >55% iron), 22.5Mt grading 51.2% iron lies within the oxidized zone (Zone 120, 50 to 55% iron) and 131Mt lies within the oxidized zone (Zone 130, 30 to 50% iron). 878.6Mt lies within the fresh magnetite BIF domain (Zone 210) and grades 32.7% iron.

Metallurgical testwork is currently underway on a composite sample of saprolite ore (Zone 130) from the Nkout Centre project. The testwork is being undertaken by SGS Minerals in the UK. The sample is a composite sample with approximately equal proportions of material from three drill line sections drilled during the 2010 programme. Samples were taken from eight drillholes and the target iron head grade of the sample was 44%, being in-line with the average grade of this domain.

SRK undertook a site visit in September 2010 to view the ongoing drilling and to assist in the drillhole planning with the exploration scope being to generate an inferred mineral resource for the Nkout Centre asset. The mineral resource estimate is based on sample assays obtained from 4,359m of drilling and thirty two holes. Magnetite BIF was targeted in ten holes and 3,191m of drilling. A further twenty-one holes and 1,104m were drilled to test for Direct Shipping Ore and Saprolite material.

Exploration Programme

The Company is currently planning a 25,000m drill programme to increase the resource classification of the Nkout centre deposit from the inferred to indicated level whilst also targeting additional inferred mineral resources at Nkout east and Nkout west. The Company is also planning a scout drilling programme to investigate the potential of additional magnetic anomaly targets in the licence area.

The Company has a budget of $12 million for the upcoming drill programme that aims at defining a total resource base of 4Bt, of which 60% is targeted to be in the indicated category and the remaining 40% in the inferred category. The aim is also to utilise the funds for on-going metallurgical testwork to increase the confidence in the metallurgical properties of the oxidised cap and magnetite BIF.

iii) Other Iron Ore Projects, Cameroon

African Aura holds interests in two other iron ore projects in Cameroon, the Ngoa Hill and Akom Hills projects, which, when combined with the Nkout Project, are considered by the Company to represent a potentially significant iron ore asset.

The Ngoa Hill project is located 3 Kms south of the Nkout Project on the adjacent Essong licence, which is 70% owned by African Aura. The project contains one prospect which is approximately 2 Kms long and stands approximately 100m higher than the Nkout Project. Its flanks are strewn with a high proportion of enriched banded iron ore formation float with haematite and magnetite contents visually estimated between 70% and 100%.

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

(b) GOLD DIVISION

(i) New Liberty Gold Project, Liberia

Introduction

The key asset in the Gold division is the 100% owned New Liberty Gold Project. The New Liberty project is a greenfield development with the advantage of having excellent access from the capital and main port of Liberia, Monrovia. From the capital there is predominantly paved road covering the 85 Kms to the project site, providing all year round access.

The Company was granted by the Government of Liberia a Class 'A' Mining Licence within the Bea Mountain MDA in August 2009.

The best drill intersect from New Liberty is currently 8.45 g/t Au over 37m from 55m down hole 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%.

Resource Estimate

In December 2010, the Company 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.

Preliminary Economic Assessment ("PEA")

The PEA supports an open pit and gold processing plant with an average annual production rate of 850,000 tonnes of ore over an 8.5 year production life. In the first 5 years of the project, forecast gold production will average 100,000 ounces per year with total gold production for the project expected to be some 786,700 ounces.

The average life of mine cash cost per ounce is estimated at $484 with an expected pre-tax net present value of $234 million at a gold price of $1,100/oz using a 10% discount rate and a pre-tax internal rate of return of 73%. The expected payback period is less than 2 years. For all estimates Q4 2010 market prices for capital and operating costs were applied. Based on the results of the study, the New Liberty deposit contains 7.3Mt of mineable gold ore in the indicated and inferred category at a diluted head grade of 3.6 g/t. The majority of the mineable resource is in the indicated category.

The total capital cost of $98 million for the project includes processing plant, power supply, other mine infrastructure, tailings dam construction, creek diversion, sustaining capital and mine closure. The pit optimization work assumes that the mining operation will be outsourced to a suitable mining contractor. An analysis of project sensitivities highlights that the operation is least sensitive to capital cost increases. The Company considers the project to be robust as the breakeven gold price is approximately $640 per ounce, inclusive of capital cost repayments and depreciation.

Based on the positive results of the Study, the Company plans to advance the New Liberty Project through to the definitive feasibility study stage by the end of 2011. In that regard, a project environmental and social impact assessment scoping study was started by Golders Associates Africa Ltd in August 2010 and the final study is due in Q3, 2011. The Company is planning a resource infill drilling programme to convert indicated resources to the measured category and inferred resources to the indicated category during the first 6 months of 2011. Inter alia, further metallurgical samples will be obtained for testing to update the mill comminution and recovery test work previously completed by SGS Lakefield of Canada, and Mintek of South Africa. The work will be aimed at providing final design parameters for the grinding circuit together with investigations to improve recovery performance and optimise reagent additions.

Economic Highlights

Economic highlights of the Study are detailed in the table below, and are on a 100% project basis, excluding debt finance:

Ore Milled	Mt	7.3
Mined Head Grade	g/t	3.6
Total Gold Produced	Ounces	786,700
Process Recovery	%	93
Mine Life	Years	8.5
Waste	Mt	137.9
Stripping Ratio		18.9
Gold Price	$/oz	1100
Gross Revenue	$M	865
Net Smelter Return	$M	837
Operating Costs	$M	352
Operating Cash Flow	$M	485
NPV pre-tax @ 10%	$M	234
IRR pre-tax	%	73
Pay Back Period	Years	1.5 to <2.0
Operating Cash Cost	$/oz	484
Initial Capital Cost	$M	92
Sustaining, Closure Capital and Tailings Cost	$M	6

<u>Sensitivity analysis</u>

Gold Price	**$/oz**	**900**	**1000**	**1200**
NPV pre-tax @ 10%	$M	132	183	285
IRR pre tax	%	49	61	85

(ii) Weaju gold project, Liberia

The Weaju deposit is situated 30 Km east north east of the New Liberty Gold Project at the eastern end of the Bea Mountain ridge. Mapping, supplemented by later drilling, indicates that mineralization is located within a sheared ultramafic host unit bounded to the north and south by granite basement. Soil geochemical data, when superimposed onto the detailed geological map of the prospect area defines a linear, slightly discordant, en-echelon anomalous zone, some 1500m long and open ended in both directions and concentrated in shear zones along contacts between granite and the ultramafic schist-belt. Preliminary mapping by Company geologists suggested that a network of anastomosing faults and shears cuts across the ultramafic unit, resulting in the formation of tight folds that have considerably thickened the mineralized zones as well as, presumably, the host rock itself.

A total of 3,935m of diamond drilling was completed in forty eight diamond drill holes during two phases over the period from 2000 to 2006. This drilling confirmed the presence of four principal high-grade lenses of gold mineralisation, named the North Zone, the Main Zone, the Ridge Zone and the Creek Zone, as well a zone of modest mineralization called Macenta. The North Zone dips north at 60° to 70°and the other zones dip south at steep angles. The combined strike length is approximately 450m. The five zones have been drilled generally with one hole per section, on sections 25m apart.

During the first half of 2010 the Camp at Weaju has been upgraded in preparation of a 4,000m drill programme which was scheduled for 2010 but postponed until 2011 as exploration activities in 2010 were concentrated on New Liberty and Ndablama.

(iii) Ndablama gold project, Liberia

Ndablama currently serves an artisanal mining community, where the largest workings have a strike length of approximately 200m and a width of 50m. The Ndablama prospect is located in the northeast corner of the Bea MDA property, approximately 40 Km northeast of the New Liberty Gold Project. A soil sampling survey delineated a 1.2 Km long, north-south-trending, anomalous zone of gold enrichment, up to 100m wide, that remains open along strike. Follow-up trenching along a 400m long southern section of the anomaly has exposed weathered amphibolites and sheared and folded ultramafic schists dissected by tourmaline granites, breccias and pegmatites of variable strike, the whole zone attaining widths of over 150m. Sampling of the trenches returned best results of 1.38g/t gold over 70m (including 5.21 g/t gold over 8m) and 1.06 g/t gold over 70m (including 1.58 g/t gold over 10m). A follow-up 15 hole, diamond drilling programme for approximately 2,500 meters has been in progress since November 2010 and was designed to test a portion of the soil anomaly covered by the recent trenching. Results have now been received for eight holes and returned encouraging, near surface, down hole intercepts which include 16m at 2.38 g/t gold, 8m at 6.04g/t gold and 18m at 1.28 g/t gold. The current drilling results only cover a 400m by 100m area and results for the remaining seven holes, are pending. Soil sampling results have extended the gold anomaly to over 2 Km long. Phase II of the exploration programme will include ground geophysics and further trenching and drilling.

(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 has been completed enabling workers to access the site and construction of a camp was finished in 2010. At Gondoja, exploration is still at an early stage despite encouraging results from an earlier drilling programme.

(v) Sonfon Gold Project, Sierra Leone

The Sonfon project is subject to a joint venture agreement dated June 16, 2010, as amended, between Golden Star and African Aura, pursuant to which Golden Star and African Aura hold 51% and 49% interests respectively. Under this agreement, African Aura was required to elect by no later than January 31, 2011 to contribute, in accordance with its pro-rata share, to aggregate expenditures made by Golden Star from July 1, 2009 to December 31, 2010 in the amount of $792,431, through the payment of cash or the issuance of African Aura common shares. African Aura settled its pro-rata share of such expenditures in cash in February 2011.

In January 2011, Golden Star and African Aura decided to continue the joint venture for 2011. A work programme for 2011, including 10,800m of reverse circulation drilling, has been agreed between Golden Star and the Company. If African Aura does not contribute to future expenditures in accordance with its pro-rata share, African Aura's interest in the Sonfon project will be reduced in accordance with the dilution provisions of the joint venture agreement.

It is expected that the joint venture agreement between African Aura and Golden Star will be novated and assigned to Aureus Mining in connection with the reorganisation of the Company as described in section x.

(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.

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 2010	Year ended December 31 2009	Year ended December 31 2008
Net sales	320,367	1,179,004	-
Gross loss	(440,639)	(1,534,671)	-
Interest income	77,866	2,676	74,484
Administrative and office expenses	1,266,597	1,349,718	1,044,292
Project impairment	2,566,918	7,756,846	11,250,591
Professional fees	1,247,323	1,431,128	1,938,650
Dilution gain	-	-	7,157,964
Stock based compensation	1,962,775	722,489	1,455,625
Gain on disposal of SLIO	-	3,076,366	7,762,899
Gain on disposal of Stellar Diamonds	2,913,773	-	-
Impairment of investment in Stellar	(2,308,501)	-	-
Share in results of associate	(2,285,576)	196,623	-
(Loss)/income attributable to the owners of the parent for the year	(11,230,946))	(7,739,218)	1,841,014
Basic (loss)/income per share attributable to the owners of the parent	(0.169)	(0.182)	0.048
Working capital	33,948,738	1,516,852	6,939,955
Total assets	91,741,613	59,467,811	54,749,687
Deferred exploration costs	30,492,105	22,378,268	27,316,442
Non-current convertible debentures	-	396,078	2,048,638
Exploration expenditure in the year	11,184,689	5,305,617	10,402,580

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 gross loss in 2009 and 2010 relates to Stellar Diamonds which was disposed of in Q1, 2010 following the reverse takeover of WAD. As an explorer the Company would normally incur a loss, however, due to a number of one-off transactions the Company recorded income in 2008, of $1,841,014. A significant factor in achieving this income was the gain on disposal ($7,762,899) of SLIO to Severstal.

(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	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Net sales	-	-	-	320,367
Gross profit/(loss)	-	-	-	(440,639)
Interest income	25,793	39,093	5,486	7,494
Dilution gain/(loss)	-	-	-	-
Impairment of investment in Stellar	(2,308,501)	-	-	-
Project impairment	-	62,314	2,504,604	-
Gain on disposal of Stellar	-	-	-	2,913,773
(Loss)/Income attributable to the owners of the parent company	(5,006,480)	(1,190,981)	(5,844,898)	811,413
Basic and diluted income/(loss) per share	(0.069)	(0.017)	(0.098)	0.015
Total assets	91,741,613	65,259,974	66,104,223	55,396,326
US Dollars	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Net sales	615,299	359,161	204,544	-
Gross profit/(loss)	370,368	(1,010,834)	(894,205)	-
Interest income	-	19	1,143	-
Dilution gain	77,054	(24,385)	(52,669)	1,514
Project impairment	321,321	6,913,238	500,371	-
Gain on disposal of SLIO	3,076,366	-	-	21,916
(Loss)/Income attributable to the owners of the parent company	582,892	(4,787,763)	(2,923,267)	(611,080)
Basic and diluted income/(loss) per share	0.028	(0.121)	(0.074)	(0.015)
Total assets	59,467,811	44,307,648	52,765,793	53,661,289

The Company's performance is not affected by seasonal trends. Diamond sales commenced in Q2, 2009 and stopped following the reverse takeover of WAD by Stellar in Q1, 2010. As an explorer the Company has historically incurred losses, however, in the quarters ended December 31, 2009 and March 31, 2010 the Company recorded net income of $582,892 and $811,413 respectively. 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 as detailed above. 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.

(c) RESULTS OF OPERATIONS

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

(a) Review of three months ended December 31, 2010 (unaudited) compared to the three month period ended December 31, 2009 (unaudited).

The loss in Q4, 2010 attributable to owners of the parent of $2.8 million compares with an income of $0.6 million in the corresponding period last year. The main movements that resulted in the reduction in income of $3.4 million are explained below:

(1) A reduction in gross profit in Q4, 2010, amounting to $0.4 million;

(2) Expenses in Q4, 2010 of $2.3 million are $0.8 million below last year. The expenditure items to reduce over last year included: interest on convertible debentures ($0.4 million) as no interest was recorded in Q4, 2010 following the conversion of the convertible into common shares; no impairment charge in the quarter compared with $0.3 million in Q4, 2009; and professional fees of $0.5 million fell by $0.4 million over last year. This included an increase in legal fees of $129k as a result of the Arrangement to split the Company offset by a decrease in consultancy fees of $491k. The reduction in consultancy fees arises as 2009 included merger expenditure amounting to $756k. Depreciation reduced by $256k principally due to the disposal of Stellar;

(3) Expenses which increased in Q4, 2010 included stock based compensation (up $0.3 million) arising from the appointment of key management to run Aureus Mining. Administration at $0.7 million (up $0.1 million), due to the recognition of UK social security accruals on unexercised stock options ($0.2 million) partly off-set by decreases in Stellar related administration expenses following the disposal of that business in Q1, 2010. Foreign exchange losses increased by $0.2m over Q4, 2009 to $0.6 million. The foreign exchange loss is mainly due to the sterling proceeds of the December fund raising being recorded at approximately $1.57/£ at the date of the transaction but converted to dollars and revalued at the year end at approximately $1.54/£;

(4) The loss arising on the Company's share in associates was $429k in Q4, 2010 compared with a gain in 2009 of $30k. The majority of the increase relates to Stellar which started to be treated as an associate following its disposal in Q1, 2010. Previously the Company's share in associates related only to SLIO; and

(5) Other significant one-off transactions to affect the variance between Q4, 2010 and 2009 included: the $3.1 million gain in 2009 from recognising the final deferred consideration on the Putu transaction;; and a $2.3 million impairment charge in 2010 on the investment in Stellar.

(b) Review of twelve months ended December 31, 2010 compared to the twelve month period ended December 31, 2009.

The loss for the twelve months attributable to owners of the parent for the year of $11.2 million compares with a loss of $7.7 million in 2009. The increase in the loss of $3.5 million or 45% is due to a number of reasons which are outlined below:

(1) The gross loss at $0.4 million is $1.1 million lower following the disposal of Stellar;

(2) Expenses at $9.5 million are $4.3 million below 2009. The main differences are detailed below:

(i) Project impairment in the year of $2.6 million relates mainly to North Bea Gold Project in Liberia, which was considered uneconomic. This is $5.2 million below last year which included the impairment charge of $7 million relating to the Kono Diamond Project in Sierra Leone;

(ii) Stock based compensation at $2.0 million for 2010 is $1.2 million higher than last year because 2.7 million options were granted in the year versus 650,000 in 2009;

(iii) The foreign exchange loss at $0.6 million in the year is an increase of $0.5 million over 2009.The loss in 2010 includes $0.9 million gain which has arisen on inter-company balances and a $0.2 million realised gain. These are off-set by a $0.3 million loss on revaluation of cash balances and $0.2 million loss on the deemed disposal of Stellar;

(iv) Interest on the convertible debentures at $0.9 million fell in 2010 by $0.3 million as no interest was recorded in Q4 following the conversion of the convertible debenture to common stock in the Company;

(v) Management fees at $0.2 million are $0.2 million below last year. The reduction is predominantly due to the departure of Stellar management following the disposal in Q1, 2010;

(vi) Professional fees at $1.2 million reduced by $184k during the year. This included an increase in legal fees of $0.4 million predominantly due to costs associated with the Plan of Arrangement off-set by lower consultancy fees (down $0.6 million) which included the 2009 merger costs;

(vii) Administrative and office expenses amounted to $1.3 million for the year. Although in line with 2009 this hides a reduction in costs relating to Stellar including marketing costs (down $28k), in-country export costs (down $113k), staff salaries (down $231k). Other movements included travel (up $102k), recognition of UK social security accruals on unexercised stock options (up $386k), and the write-off of an amount owed to Stellar ($204k) following an independent audit of the balance owed;

(viii) The gain recorded on the disposal of Stellar Diamonds was a one-off transaction and amounted to $2.9 million in 2010. This was partly off-set by a write down in the carrying value of Stellar amounting to $2.3 million;

(ix) The gain on the disposal of SLIO in 2009 ($3.1 million) was in relation to the deferred consideration arising from the December 2008 agreement with Severstal; and

(x) The loss arising during the year in the share in results of associates amounted to $2.3 million. This was $2.5 million above last year. The 2009 figure did not include the Company's share of losses in Stellar which only started to be treated as an associate following the disposal in Q1, 2010;

(ii) BALANCE SHEET, LIQUIDITY AND CAPITAL RESOURCES

Balance Sheet at December 31, 2010 versus December 31, 2009

Total assets at $91.7 million are $32.4 million above last year. Current assets at $36.7 million are $28.3 million higher than last year mainly due to the higher cash and cash equivalents following the successful fund raising completed in early December which raised aggregate gross proceeds of approximately £20.3 million (circa $32.0 million). Non-current assets at $55.1 million are $3.9 million above last year. Of total non-current assets $35.1 million are located in Liberia, $12.6 million in Cameroon, $5.1 million in UK and $2.2 million in Sierra Leone. Investment in associates increased by $8.0 million due to the deemed disposal of Stellar which is now treated as an associate company. The reduction in property, plant and equipment of $9.8 million is due principally to the disposal of Stellar in Q1, 2010. Resource properties at $7.7 million are $2.3 million lower than the 2009 level following the impairment of North Bea gold project in Liberia. Deferred exploration costs at $30.5 million increased by $8.1 million. Exploration expenditure in the period of $11.2 million (including New Liberty $5.6 million and Nkout $4.4 million) was off-set by the disposal of the Stellar exploration properties with a carrying value of approximately $3 million.

Current liabilities reduced by $4.1 million to $2.7 million at the end of December, 2010. Accounts payable and accrued liabilities at $2.3 million are in line with 2009 levels. The amount ($0.7 million) due to joint venture partners at December refers to Petra Diamonds and was eliminated on the disposal of Stellar. Convertible debentures matured at the end of September, 2010 and were converted to common shares in early October,

2010. Non-current liabilities reduced to $0.05 million and relates to a provision for the onerous lease of office premises. The non-current liabilities in 2009 of $0.5 million related to convertible debentures and asset retirement obligations of Stellar which were eliminated following the disposal of that business in Q1, 2010.

Total shareholders' equity of $89 million at December 31, 2010 is $36.8 million above the 2009 level. The main movements were the increase in share capital of $53.7 million following two private placings ($49.3 million gross less issuance costs of $1.8 million) in April and December 2010 and the conversion of convertible debentures ($6.3 million) in early October 2010. The conversion of the convertible debentures resulted in the transfer of the equity component of $2.6 million into share capital. The contributed surplus rose by $2.0 million due to issuance of share options in January, May and November 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 $22.6 million in 2010 as a result of the loss for the year explained in C (ii) above.

Cash Flow for the twelve months ended December 31, 2010

The cash inflow for the year ended December 31, 2010 amounted to $32.4 million leaving cash at the end of the year at $36.1 million. This compares with a cash outflow of $5.2 million in 2009.

The cash inflow in the year was mainly due to financing activities amounted to $47.2 million with two private placings undertaken during the year raising net $47.4 million, $46.6 million more than 2009. There were no proceeds from the issue of share capital in 2009, although in that year the Company raised $0.9 million by issuing convertible debentures to finance Stellar. Interest paid on convertible debentures amounted to $0.3 million in 2010 and was in-line with 2009.

Operating activities in the year resulted in a cash outflow of $4 million $340k higher than 2009.

The cash outflow from investing activities amounted to $11.1 million and included the purchase of property, plant and equipment ($1.2 million), deferred exploration costs ($11.2 million), $2.8 million being the Company's pro-rata funding of the Putu Iron Ore Project. This expenditure was partly off-set by the proceeds from the disposal of SLIO ($4.2 million) received during the year. This compares with a much lower level of expenditure on investing activities in 2009 of $2 million. At $5.3 million, deferred exploration costs were $5.9 million lower than last year. In addition $3.7 million was received in 2009 as a consequence of the acquisition of African Aura Resources Limited.

(d) OTHER INFORMATION

(i) Outstanding share data

	Shares	Amount $
Balance at January 1, 2009	39,726,376	37,963,124
Shares issued on acquisition of African Aura Resources Limited	13,158,080	12,691,148
Share issuance costs related to the acquisition of African Aura Resources Limited	-	(17,187)
Balance at December 31, 2009	52,884,456	50,637,085
Shares issued on private placing	30,914,567	49,278,442
Share issuance costs	-	(1,845,985)
Conversion of convertible debentures	2,053,569	6,277,970
Exercise of share options	11,500	18,652
Balance at December 31, 2010	85,864,092	104,366,164

On April 20, 2010, the Company announced that it has conducted a private placing raising gross proceeds of £11.3 million ($17.4 million at the exchange rate of 1.54) consisting of 17,398,770 new common shares of no par value in the capital of the Company at 65 pence ($1.00) per share. The direct costs to issue the shares which have been charged to share capital amounted to $498,848.

On December 6, 2010, the Company announced that it has conducted a fully underwritten private placing to institutional investors raising gross proceeds of £20.3 million ($31.9 million at the exchange rate of $1.57) consisting of 13,515,797 new common shares of no par value in the capital of the Company at 150 pence ($2.36) per share. The direct costs to issue the shares which have been charged to share capital amounted to $1,347,137.

African Aura's £2.3 million ($3.6 million) convertible debentures matured on September 28, 2010 and were converted into 2,053,569 new common shares of the Company on October 6, 2010.

On December 24, 2010, the Company issued 11,500 new common shares in exchange for the exercise of 11,500 stock options at a weighted average exercise price of Cdn$1.71 ($1.69).

Stock options in the Company

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

	December 31, 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	**2,698,750**	**1.33**	650,000	0.80
Options expired	**(327,500)**	**1.76**	(340,000)	1.92
Options terminated	**(6,250)**	**1.60**	-	-
Options exercised	**(11,500)**	**1.71**	-	-
End of the period	**5,713,306**	**1.36**	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 five years. These options have resulted in a charge to the consolidated statement of (loss)/income 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 (loss)/income of $857,053.

On November 1, 2010, the Company granted incentive stock options to a director and employee to purchase up to an aggregate of 240,000 common shares of no par value at an exercise price of Cdn$2.26 per share, exercisable immediately and for a period of five years. These options have resulted in a charge to the consolidated statement of (loss)/income of $259,241.

The 6,250 options terminated relates to those previously held by an employee who has left the Company.

The options granted during the period have resulted in a charge to the consolidated statement of loss of $1,962,775 based on the Black-Scholes option pricing model and the following assumptions:

	January 8, 2010	**May 13, 2010**	**November 1, 2010**
Weighted average share price	Cdn$1.22	Cdn$1.25	Cdn$2.45
Weighted average exercise price	Cdn$1.22	Cdn$1.25	Cdn$2.26
Expected volatility	69.1%	63.6%	46.6%
Expected life	5 years	5 years	5 years
Risk-free rate	3.05%	3.05%	1.85%
Expected dividend yields	0%	0%	0%

(ii) Convertible debentures issued by the Company

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

	December 31, 2010 $	December 31, 2009 $
Opening balance	**3,795,840**	2,048,638
Fair value accretion	**605,009**	781,212
Unrealised foreign currency exchange (gain)/loss	**-**	205,309
Conversion of Stellar convertible debentures to equity	**(274,991)**	-
Disposal of Stellar	**(485,690)**	-
Conversion of African Aura convertible debentures	**(3,640,168)**	
Net proceeds from issue of Stellar convertible loan notes	**-**	727,773
Fair value accretion on Stellar convertible loan notes	**-**	32,908
Closing balance	**-**	3,795,840
Included in current liabilities	**-**	3,399,762
Included in non-current liabilities	**-**	396,078
	-	3,795,840

On September 28, 2010, the £2.3 million ($3.6 million) convertible debentures matured and the holders elected to convert into 2,053,569 common shares at a conversion price of £1.12 per share. The shares were allotted and issued on October 6, 2010. The value of the shares issued comprises:

	2010 $
Debt component of the convertible debentures	3,640,168
Equity component of the convertible debentures	2,637,802
	6,277,970

The convertible debentures were originally issued on September 27, 2007 and had a coupon rate of 9% per annum. As the debentures are convertible into common shares at the option of the holder, they were accounted for in their component parts. The fair value of the conversion option was determined to be $2,637,802 based on using the Black-Scholes option pricing model. The residual was allocated to the debt component and subsequently carried at amortised cost using the effective interest rate of 44.1% to accrete the liability to the value of the consideration received.

(iii) Related party transactions

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

	2010	2009
	$	$
Incurred management fees by directors	**326,641**	634,178
Incurred directors fees	**293,578**	408,095
Incurred professional fees and consultancy services by a director	**42,511**	107,640
Incurred geologist fee with a company related by a common director	**22,453**	-

These transactions are in the normal course of business and are payable on demand. A portion of the management fees have been capitalised within the deferred exploration costs.

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

	2010	2009
	$	$
Directors' companies	**141,348**	9,499
Various directors	**-**	160,213
	141,348	169,712

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.

The directors' participation in the private placing during the year is as follows:

	April 20, 2010		December 6, 2010		Total	
Director	Number of shares	GBP	Number of shares	GBP	Number of shares	GBP
David Netherway	19,000	12,350	20,000	30,000	39,000	42,350
Luis da Silva	45,650	29,673	16,667	25,000	62,317	54,673
Guy Pas	538,000	349,700	200,000	300,000	738,000	649,700
David Evans	23,000	14,950	10,000	15,000	33,000	29,950
Steven Poulton	77,000	50,050	13,334	20,001	90,334	70,051
David Reading	-	-	33,334	50,001	33,334	50,001
	702,650	456,723	293,335	440,002	995,985	896,725

(iv) Deemed disposal of Stellar Diamonds and non controlling interest

On February 22, 2010, Stellar completed its reverse takeover of West African Diamonds plc. 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. 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. Consequently, the Company's interest at that time, in Stellar Diamonds plc was diluted from 58.34% to 31.8%.

Stellar Diamonds plc commenced trading on AIM on February 22, 2010.

The dilution of the Company's interest in Stellar from 58.34% to 31.8% represents a deemed disposal of a subsidiary. The Company's current interest is 22.1%. Accordingly, African Aura has:

- derecognized the assets, liabilities and non-controlling interest in Stellar at their carrying amounts as at 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 as at 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 between the fair value of the consideration received and carrying value of the net assets as at February 22, 2010 as a 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 non-controlling interest held in Stellar is:

	2010 **$**	2009 $
Beginning of the year	**5,041,651**	9,011,297
Comprehensive loss	**(312,123)**	(4,446,476)
Shares issued to non-controlling interest	**524,917**	321,213
Non-controlling interest in stock-based compensation	**-**	155,617
Disposal of Stellar	**(5,254,445)**	-
End of the year	**-**	5,041,651

As noted above the non-controlling interest as at February 22, 2010 has been derecognized.

Shares issued to non-controlling interest consists of 668,832 shares issued to Stellar directors at a fair value of £0.20 per share as payment for their remuneration in 2009 of $208,676 and 1,655,301 shares issued on conversion of Stellar convertible debentures and related interest of $316,241, all preceding the reverse takeover of WAD on February 22, 2010.

Stellar incurred a net loss of $749,215 from January 1 to February 22, 2010 (2009: $10,944,841).

(v) 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	-	1,195,632	1,195,632
Disposal of Stellar	(10,692,283)	(1,423,221)	(12,115,504)
At December 31, 2010	-	2,160,643	2,160,643
Depreciation			
At January 1, 2010	741,362	839,972	1,581,334
Charge for the period	246,145	397,355	643,500
Disposal of Stellar	(987,507)	(739,505)	(1,727,012)
At December 31, 2010	-	497,822	497,822
Net book value			
At December 31, 2010	**-**	**1,662,821**	**1,662,821**
At January 1, 2010	**9,950,921**	**1,548,260**	**11,499,181**

The reduction in the net book value during the year is the result of the disposal of Stellar during Q1, 2010. Following the disposal of Stellar, the Company no longer has any mining assets. Of the additions made during the year, $828k relates to vehicles and the balance to general equipment.

(vi) Resource properties, deferred exploration costs and impairment

	January 1, 2010 $	Acquisition $	Impairment $	December 31, 2010 $
Resource properties:				
Liberia				
Bea	210,000	-	-	**210,000**
Ndablama extension	-	141,349	-	**141,349**
North Bea	2,457,767	-	(2,457,767)	**-**
	2,667,767	141,349	(2,457,767)	**351,349**
Cameroon				
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)	**-**
	6,374,661	-	(14,297)	**6,360,364**
Sierra Leone				
Sonfon	1,017,000	-	-	**1,017,000**
	1,017,000	-	-	**1,017,000**
	10,059,428	141,349	(2,472,064)	**7,728,713**

(vi) Resource properties, deferred exploration costs and impairment (continued)

	January 1, 2010	Additions	Disposal of subsidiary	Impairment	December 31, 2010
	$	$	$	$	$
Deferred exploration costs:					
Liberia					
New Liberty	16,996,448	5,561,349	-	-	**22,557,796**
Weaju	757,598	376,882	-	-	**1,134,480**
Gondoja	34,348	-	-	-	**34,348**
North Bea	39,653	7,184	-	(46,837)	-
Silver Hills	3,009	45,098	-	-	**48,107**
Ndablama	-	288,981	-	-	**288,981**
	17,831,056	6,279,493	-	(46,837)	**24,063,712**
Cameroon					
Batouri	330,158	81,931	-	-	**412,089**
Ntem	8,280	206,743	-	-	**215,023**
Akonolinga	906	101,714	-	-	**102,620**
Nkout	4,339	4,407,479	-	-	**4,411,818**
Ngoa	-	85,409	-	-	**85,409**
Ekomedion	24,322	23,695	-	(48,017)	-
	368,005	4,906,971	-	(48,017)	**5,226,959**
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)	-	-
	3,823,647	7,303	(2,629,516)	-	**1,201,434**
Guinea					
Bouro	180,995	-	(180,995)	-	-
Droujba and ex De Beers	159,289	-	(159,289)	-	-
Ouria	15,276	(9,078)	(6,198)	-	-
	355,560	(9,078)	(346,482)	-	-
	22,378,268	**11,184,689**	**(2,975,998)**	**(94,854)**	**30,492,105**

New Liberty (Gold) and Nkout (Iron Ore) represent 88% of deferred exploration costs (74% and 14% respectively) and are the Company's key projects along with Putu Iron Ore Project. Projects proximal to New Liberty are Weaju, Gondoja, Silver Hills and Ndablama.

Apart from New Liberty and Nkout, the Company's remaining projects are at a relatively early stage, however, Management do not believe there to be any indication of impairment on these projects.

(vi) Resource properties, deferred exploration costs and impairment (continued)

	2010	2009
	$	$
Deferred exploration costs		
Assays incl. shipment	**542,826**	18,997
Communications incl. equipment	**84,069**	34,420
Community relations	**434,862**	212,540
Consultants and professional fees	**496,376**	883,387
Data, images, reports and maps	**-**	9,511
Drilling	**4,161,911**	1,007,695
Geophysical	**420,125**	-
Infrastructure incl. roads and bridges	**874,791**	195,288
Licenses and permit fees	**89,709**	123,887
Project/field office costs, incl. field equipment	**1,385,023**	397,365
Salaries and wages	**1,849,409**	1,047,156
Subsistence	**204,782**	75,977
Transportation incl. vehicles	**640,806**	358,509
Net Trans-Hex joint venture	**-**	(85,428)
Kono (Petra) joint venture	**-**	939,318
Net expenditure during the year	**11,184,689**	5,218,622
Disposal of Stellar	**(2,975,998)**	-
Impairment	**(94,854)**	(7,587,346)
Transfer Mandala to property, plant and equipment	**-**	(2,569,450)
Balance, Beginning of the year	**22,378,268**	27,316,442
Balance, End of the year	**30,492,105**	22,378,268

The resource properties and deferred exploration costs relating to North Bea and Ekomedion amounting to \$2,504,604 and \$62,314, respectively, were impaired during the year. In both cases the projects were not considered to have the economic potential to warrant further exploration. The North Bea licence was also relinquished during the year. The total impairment charge recorded during 2009 was \$7,756,846 of which \$7,000,000 related to the Kono diamond project in Sierra Leone which was disposed of as part of the disposal of Stellar. A further \$318,698 and \$446,792 was written off in 2009 in respect of the Nimini diamond project and the diamond joint venture with REMEC, respectively.

Drilling costs at \$4.2 million are \$3.2 million above last year and represented 37% of total net expenditure in the year. The majority of drilling was undertaken at the Company's New Liberty Gold Project (\$2.3 million) and the Nkout Iron Ore Project (\$1.7 million). The increase in assay costs (\$524k) and project/field office costs (\$988k) over last year is a result of increased activity at New Liberty and Nkout. Consultants and professional fees declined by \$387k over 2009 levels due to lower geotechnical costs and legal costs at New Liberty.

(vii) Going concern

The Company has prepared its consolidated financial statements on a going concern basis which assumes that the Company will be able to realise assets and discharge liabilities in the normal course of business. . At December 31, 2010 the Company had cash and cash equivalents of $36.1 million and the directors believe that the current funds will be sufficient to progress the key projects and to finance general overhead costs of African Aura and Aureus for a period of at least 12 months from the date of filing. At the point of split, currently projected to be around April 13, 2011 40% of the cash and cash equivalents of the Company will be allocated to Aureus (projected to be approximately $10.6 million) and the balance (approximately $16.0 million) will stay with African Aura (to be renamed Afferro Mining).

(viii) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the adoption date for publicly listed companies to use IFRS, replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's adoption date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company's approach to the conversion to IFRS includes three phases.

- Phase One, an initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to accounting standards under IFRS. This phase has been completed;
- Phase Two, an in depth analysis of the impact of those areas identified under phase one. This phase is currently in progress; and
- Phase Three, the implementation and quantification of the conversion process, through the preparation of the opening balance sheet as at January 1, 2010 and comparatives. This phase is currently in progress.

The Company's IT accounting and financial reporting systems are not expected to be significantly impacted by the implementation of IFRS.

Based on the review undertaken during Phase One and the work completed to date under Phase Two, the Company believes the impact that IFRS will have on its current financial position and results will be limited. IFRS will require more extensive disclosure and analysis of balances and transactions in the notes to the financial statements. The specific accounting areas that the Company has been focussing its analysis on are outlined below:

Key Area	Canadian GAAP (as applied by the Company)	IFRS
Deferred exploration costs	Exploration, evaluation and development costs are capitalized when incurred. They are amortized on the basis of production or written off when the prospect is no longer deemed prospective or is abandoned.	IFRS has limited guidance with respect to these costs and currently allows exploration and evaluation costs to be either capitalized or expensed. The Company intends to maintain its existing policies in this area and hence there will be no impact arising from the adoption of IFRS.
Functional currency	Functional currency can be assessed for the group as a whole. The Company determined the U.S. dollar to be the functional currency.	Functional currency should be assessed independently for each subsidiary within a consolidated group and introduces the concept of primary and secondary indicators of functional currency and has two levels of translation principles related to functional and presentational currency.
Impairment of long-lived assets	Impairment tests of long-lived assets are considered annually based on indications of impairment. Impairment tests are performed on the basis of undiscounted future cash flows. Write-downs to net realizable values under an impairment test are permanent changes in the carrying value of assets.	Impairment tests of "cash-generating units" are considered annually in the presence of indications of impairment. Impairment tests are generally carried out using the discounted future cash flow. Write-downs to net realizable values under an impairment test can be reversed if the conditions of impairment cease to exist.
Property, plant and equipment	Plant and Equipment is recorded at cost less accumulated depreciation. Depreciation is based on useful lives after estimation of residual values.	Plant and Equipment can be recorded at cost or at fair value. Depreciation must be based on the useful lives of each significant component with Plant and Equipment. The Company has no plan to adopt fair value.
Stock-based compensation	Stock-based compensation is determined at grant date using fair value models for option awards. Actual forfeitures are only recorded as they occur.	Stock-based compensation is determined using fair value models for option awards at grant date. A forfeiture rate is also estimated at that date and the compensation expense is adjusted for that rate. All options vest on grant so this area will have no impact on the financial statements.

As the Company early adopted CICA Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling Interests during the year ended December 31, 2009 the Company is generally aligned with IFRS in these areas.

IFRS 1, "First time adoption of International Financial Reporting Standards", generally requires that all IFRS standards and interpretations be accounted for on a retrospective basis. IFRS 1 provides for certain optional exemptions and other mandatory exceptions to this general principal. The majority of these exemptions and exceptions are currently not applicable or relevant to the Company.

The above comments should not be considered as a complete list of differences that will result from the transition to IFRS as the Company's analysis is still in progress and no final determinations have been made where choices of accounting policies are available.

(ix) Off balance sheet arrangements

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

(x) Proposed Transactions

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:

- 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 incorporated on February 1, 2011 called Aureus Mining, 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, scheduled for April 13, 2011 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. Aureus will be listed on the TSX and AIM.

(xi) Financial Instruments

At December 31, 2010 the Company's financial assets and liabilities are cash, accounts receivable, accounts payable and accrued liabilities, and amounts due to related parties. The fair values of these financial instruments are estimated to approximate their carrying values due to their immediate or short-term nature. The Company is debt free following the conversion of convertible debentures in October 2010.

The carrying amounts for the financial instruments are as follows:

	2010 **$**	2009 $
Financial assets:		
Loans and receivables, measured at amortised cost		
Cash	**36,104,442**	3,695,796
Accounts receivable	**488,010**	4,414,215
	36,592,452	8,110,011
Financial liabilities:		
Other liabilities, measured at amortised cost		
Accounts payable and accrued liabilities	**2,193,115**	2,119,693
Convertible debentures	**-**	3,795,840
Interest payable on convertible debentures	**-**	120,924
Due to associate	**316,236**	-
Due to joint venture partner	**-**	709,753
Due to other related parties	**141,348**	169,711
	2,650,699	6,915,921
Other liabilities, measured at fair value through profit and loss		
Embedded derivative	**-**	125,388

Carrying value of foreign currency balances

	2010 **$**	2009 $
Cash and cash equivalents, include balances denominated in:		
Pound Sterling (GBP£)	**20,934,507**	156,338
Canadian Dollar (Cdn$)	**31,880**	1,700,828
Communaute Financiere Africaine Francs (CFA)	**256,011**	71,776
Euros (EUR)	**1,192,418**	25,041
Others	**2,576**	17,203
Amounts receivable, include balances denominated in:		
Pound Sterling (GBP£)	**161,485**	139,878
Canadian Dollar (Cdn$)	**53,337**	19,615
Communaute Financiere Africaine Franc (CFA)	**273,188**	6,308
Amounts payable and accrued liabilities, include balances denominated in:		
Pound Sterling (GBP£)	**858,217**	491,169
Canadian Dollar (Cdn$)	**152,304**	194,026
Communaute Financiere Africaine Franc (CFA)	**203,448**	101,046
Euros (EUR)	**54,452**	-
Others	**-**	22,654
Due to other related parties, include balances denominated in:		
Pound Sterling (GBP£)	**-**	169,711
Convertible debentures, include balances denominated in:		
Pound Sterling (GBP£)	**-**	3,431,236
Embedded derivative, include balances denominated in:		
Pound Sterling (GBP£)	**-**	87,853

The sensitivities below are based on financial assets and liabilities held at 31 December 2009 and 2010 where balances were not denominated in the functional currency of the Company. The sensitivities do not take into account the Company's income and expenses and the results of the sensitivities could change due to other factors such as changes in the value of financial assets and liabilities as a result of non-foreign exchange influenced factors.

	Closing exchange rate	Effect on net assets of USD strengthening 10% $
At December 31, 2010		
Pound Sterling (GBP£)	0.6465	2,023,778
Canadian Dollar (Cdn$)	0.9999	(6,708)
Euro (EUR)	0.7546	113,797
Communaute Financiere Africaine Franc (CFA)	485.0300	32,575
At December 31, 2009		
Pound Sterling (GBP£)	0.6279	388,375
Canadian Dollar (Cdn$)	1.0491	152,642
Euro (EUR)	0.6977	2,504
Communaute Financiere Africaine Franc (CFA)	448.6280	2,296

Interest rate and liquidity risk

Fluctuations in interest rates impact on the value of short term cash investments and interest payable on financing activities (including long term loans), giving rise to interest rate risk. The Company has in the past been able to actively source financing through public offerings, corporate dealings or issuing fixed rate convertible debentures. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks. In the ordinary course of business, the Company is required to fund working capital and capital expenditure requirements. The Company generally enters into variable interest bearing borrowings. The Company typically holds cash and cash equivalents with a maturity of less than 32 days and other financial assets up to 6 months to ensure adequate liquidity and flexibility. The maturity of the debt instruments is reflected in the table below.

Due to the short maturity of the financial assets, and the current low level of interest rates, if interest rates were to double, it would have an insignificant impact on the Company's financial performance.

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

	Within 30 days $	30 days - 6 months $	6 months - 1 year $
Cash and cash equivalents	36,104,442	-	-
Accounts receivable	63,301	373,761	50,947
Accounts payable and accrued liabilities	(1,059,466)	(677,919)	(455,730)
Net liquidity	**35,108,277**	**(304,158)**	**(404,783)**

All cash and cash equivalents are included within 30 days and would cover the shortfall in 30 days to 6 months and 6 months to one year.

Credit risk

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

	2010 **$**	2009 $
Financial institutions with Standards & Poors AA- rating	**29,701,599**	3,333,020
Financial institutions with Moody's long-term Ba1 rating	**5,659,109**	-
Financial institutions un-rated or unknown rating	**743,734**	362,776
	36,104,442	3,695,796

(ix) Investment in associates	**SLIO** **$**	**Stellar** **$**	**Total** **$**
At January 1, 2009	8,093,775	-	8,093,775
Share in result of associates	196,623	-	196,623
Disposal	(1,090,301)	-	(1,090,301)
At December 31, 2009	7,200,097	-	7,200,097
Investment in Stellar	-	9,471,194	9,471,194
Additional investment	3,060,517	61,099	3,121,616
Share in result of associates	(179,536)	(2,106,040)	(2,285,576)
Impairment	-	(2,308,501)	(2,308,501)
At December 31, 2010	**10,081,078**	**5,117,752**	**15,198,830**

Investment in Severstal Liberia Iron Ore Limited

African Aura entered into an agreement with Severstal in December 2008 to develop the Putu Iron Ore Project. Severstal acquired $12.5 million of the issued and outstanding shares in SLIO. Severstal has further invested $30 million by way of a share subscription and a loan facility agreement.

The $30 million was fully spent by November 2010, at which time the Company and Severstal started to pro-rata fund their respective share of the exploration budget in-line with their equity interest in the project.

The gain on disposal of SLIO recognised during the year ended December 31, 2009 and included in gain on sale of assets in the consolidated statement of loss is set out below.

	2009 **$**
Consideration recognized	4,166,667
Disposal	(1,090,301)
Gain on disposal	3,076,366

The amount due to associate of $316,236 as at December 31, 2010 relates to the amount payable to SLIO (2009: a receivable of $55,552 included in receivables).

Investment in Stellar Diamonds plc

The additional investment during the year relates to the Company's participation in the placing of new funds on February 22, 2010. The Company's interest in Stellar as at December 31, 2010 is 22.1% (2009: 58.34%).

The Company recorded an impairment of $2,308,501 following the decline in the market value of Stellar from 20 pence on February 22, 2010 to 10.75 pence at December 31, 2010 which management believe to be other than temporary.

The amounts written back on due to associate of $203,506 relates to Stellar following an independent review of the transactions the majority of which are the result of the 2007 reorganisation of the diamond interests of the Company and the resulting launch of Stellar Diamonds Limited.

(xi) Subsequent Events

On January 11, 2010, the Company granted incentive stock options to certain directors and employees to purchase up to an aggregate of 2,285,000 common shares in the Company exercisable for a period of five years at a price of Cdn$2.75 ($2.77) per share.

On February 21, 2011, 229,125 new common shares were issued on exercise of stock options with a weighted average exercise price of Cdn$1.38 ($1.40).

On March 3, 2011, 159,375 new common shares were issued on exercise of stock options with a weighted average exercise price of Cdn$1.65 ($1.69).

On March 28,2011, a General Meeting of Stellar was held where shareholders approved the placing of 77,500,000 new ordinary shares in Stellar raising £6.2 million (before expenses). African Aura did not participate in this placing and consequently, its interest in Stellar has been diluted to 14.2%.

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

Just when the industry was preparing itself for a long period of stagnation, in the wake of the global crisis 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. 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 although the appetite of investors is still confined to commodities such as gold and silver, copper, iron ore and coal. 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 by splitting the Company into Gold and Iron Ore.

6. RISKS AND UNCERTAINTIES

The following risk factors apply to the current business of African Aura Mining:

Primary Risk Factors:

(a) Ability to Raise External Finance
Mineral exploration and development requires the continual injection of capital and other sources of financing to fund activities. In the past, African Aura has financed its operations by: entering into joint venture agreements with partners; raising finance through the sale of equity capital; placing unsecured convertible debentures; and selling assets. Although African Aura has been successful in the past in obtaining financing, there is no assurance that African Aura or Aureus Mining will be able to obtain adequate financing in the future or that such financing will be available on terms advantageous to African Aura.

(b) Operating in Foreign Jurisdictions
African Aura's operations in Liberia, Cameroon and Sierra Leone 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 business operations. A general election is scheduled to take place in Liberia in November 2011.

(c)Title to Mineral Properties
While African Aura has undertaken all the customary due diligence in the verification of title to its material mineral properties, this should not be construed as a guarantee of title. Such 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 African Aura operates may not provide an adequate forum for the recognition and enforcement of the legal rights of African Aura.

(d) Commodity Prices
There is a risk that the price earned for minerals will fall to a point where it becomes uneconomic to extract such minerals from the ground. During 2010, the price of commodities continued to recover from the low levels experienced during the global economic crisis in the second half of 2008. The principal metals in African Aura's portfolio are iron ore and gold. The price of gold is dependent on many factors and although it has generally performed strongly in 2010 there is no assurance this will continue in the future. Iron ore prices are affected by many factors and are generally 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 African Aura's control. The impact of commodity prices on the economics of African Aura's advanced projects is kept under close review.

(e) 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 and base metals and a lack of market liquidity, may adversely affect the development of African Aura. The global credit/liquidity crisis could also impact the cost and availability of financing and the price of African Aura's shares.

(f) Exploration, Development and Production May Not Prove to be Successful
The business operations of African Aura 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 African Aura's current exploration programmes will result in profitable commercial mining operations.

(g) Development of Prospective Projects requires Additional Licences and/or Permits
In some cases, African Aura's mineral property licences and/or permits do not currently provide for the development of a mine. Consequently, African Aura will be required to obtain further licences and/or permits (mining, environmental and otherwise) from the respective government departments in the applicable countries of operation. While African Aura currently expects that such licences/permits will be able to be obtained, when required, there can be no assurance that such licences/permits will ultimately be obtained.

(h) Licences are subject to Renewal
All tenements in which African Aura has interests are subject to renewal conditions. In the past, the granting, maintenance and renewal of licenses has depended on African Aura being successful in obtaining the required statutory approvals for proposed activities. While African Aura currently 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.

Secondary Risk Factors

(i) Insurance Coverage may not cover all Potential Losses, Liabilities and Damage
The exploration, development and production of mineral properties involve numerous risks. It is not always possible to obtain insurance against all risks and African 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 companies in the mining industry on acceptable terms and, accordingly, African Aura, as the case may be, may not be insured against such risks.

(j) Mineral Resource Estimates
African Aura cannot give any assurance that estimated mineral resources will be recovered if a decision is made to proceed to production or that they will be recovered at the volume, grade and rates estimated. The failure of African Aura, to achieve production estimates could have a material and adverse effect on any or all of their respective future cash flows, profitability, results of operations and/or financial condition. These production estimates are dependent on, among other things, the accuracy of mineral resource and mineral reserve estimates and the accuracy of assumptions regarding ore grades and recovery rates.

(k) Mining Activities are subject to Environmental Risks and Regulations
Mining is an industry which has become subject to increasing environmental responsibility and liability. The current activities of African Aura 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. There cannot be any assurance that, despite reasonable precautions, breaches of environmental laws (whether inadvertent or not) or environmental pollution will not materially or adversely affect the financial condition and results of operations of African Aura.

(l) Mining Operations are subject to Government Regulation and Permitting
Mineral exploration and 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 African Aura's exploration and planned development activities are 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 future exploration, development and/or production activities, as applicable.

(m) Foreign Currency Exchange Rate Fluctuations

Fluctuations in exchange rates may give rise to foreign currency exposure, either favourable or unfavourable, which may impact financial results. While African Aura has historically raised a large proportion of its equity financing in U.K. Pounds Sterling, most of African Aura's exploration costs, have been denominated in U.S. dollars. In the normal course of business, the Company enters into transactions denominated in foreign currencies (primarily Pound Sterling, Canadian Dollars, Communaute Financiere Africaine Franc and Euros). As a result, the Company is subject to exposure from fluctuations in foreign currency exchange rates, especially pounds sterling. In general, the Company does not enter into derivatives to manage these currency risks. The Company attempts to reduce its exposure to currency risk by entering into contracts denominated in US Dollars whenever possible. The Company has taken no other action to reduce its exposure to foreign currency risk during 2010.

(n) 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, African Aura has provided training programs to its employees. At the current stage of development of African Aura's mineral properties, mining hazards are generally limited.

(o) Presence of Artisanal Miners

Some or all of African Aura's properties are inhabited by artisanal miners, which have the potential to delay and/or interfere with work on African Aura's properties and presents a potential security threat to African Aura's employees. African Aura has a policy of maintaining good relations with the local communities and the artisanal miners in order to minimize such risks.

(p) Non-Controlled Assets

Some of the African Aura's current assets are controlled and managed by joint venture partners who may have different business objectives. Management of non-controlled assets may not comply with African Aura's management and operating standards (including health, safety and environment standards) or controls and procedures. The failure by these joint venture partners to adopt appropriate standards, controls and procedures or their improper management of assets could affect the value of the joint venture and assets held by the joint venture. African Aura mitigates this risk by ensuring legal agreements are in place to protect its interests.

(q) Market price of common shares

Securities of small and medium sized 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.

(r) 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.

7. MANAGEMENTS RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS

The audited consolidated financial statements of the Company for the year ended December 31, 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.

8. OUTLOOK

The Board believes that the current value of the Company does not recognise fully its gold and iron ore assets. As a consequence management has decided to split the Company into iron ore and gold in order to address this undervaluation. Pursuant to the Arrangement the Company (whereby the Company is to be renamed "Afferro Mining") will develop the iron ore assets, while a new company, "Aureus Mining", will develop the gold assets. The restructuring plans are nearing completion with the next milestone in the restructuring process being the special meeting of shareholders scheduled for April 5, 2011. Assuming that shareholders vote in favour of the resolutions the arrangement is expected to complete on April 13, 2011. Pursuant to the Arrangement, the last day of dealings to have the right to receive Aureus shares is April 7, 2011. At that date each shareholder of African Aura, will be entitled to receive one new common share in Afferro and one common share in Aureus Mining for each common share held of African Aura.

Meanwhile, at project level, the Putu Iron Ore Project in Liberia, the Company announced in February 2011 the increase in the resource to 2.4Bt at 34% iron. The 62,000 resource delineation drilling programme is continuing which will be completed in first half 2011. Various studies are underway as part of the pre-feasibility including an environmental baseline study, satellite imagery, topographic data studyand most importantly how the project can be accelerated.

The Nkout Iron Ore Project where the Company announced on February 1, 2011, a 1Bt maiden resource is being fast tracked and management is targeting a potential 4Bt iron ore resource. The maiden resource at Nkout was achieved at a modest cost of $4.4 million which represents a significant return on investment.

Following the upgrade in the resource estimate at New Liberty, together with the Preliminary Economic Assessment ("PEA") which was released on December 14, 2010, the focus has now shifted to completing the definitive feasibility study ("DFS") by the end of 2011. The PEA demonstrates the minimum value achievable for Aureus providing a net present value of $234 million using $1,100/oz gold price and a 10% discount rate. The DFS at New Liberty will include further drilling (up to 15,000m) to identify more ounces of gold and upgrade the resource to reserve status. The environmental and social impact assessment is on schedule to be completed by Q3, 2011.

The achievements outlined above, have significantly increased the resource base of the Company which in turn has had a positive impact on the share price and market capitalisation of the Company. When writing the Q3 MD&A I reported that the market capitalisation of African Aura had almost doubled from Cdn$92 million to Cdn$177 million. At the time of writing this MD&A the market capitalisation of African Aura had more than doubled again, to Cdn$383 million and reached a high of Cdn$416 million in mid February 2011. The Board of the Company is focused on continuing to increase shareholder value by unlocking the potential of its assets.

The Company is well positioned with cash in hand and robust gold and iron ore assets which are planned to be split into separately listed companies in April 2011 in order to deliver further value to its shareholders during the year ahead.

On Behalf of the Board,
AFRICAN AURA MINING INC.

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