

**AFFERRO MINING INC.**

**Management's Discussion and Analysis  
For the three and six months ended June 30, 2011**

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**Contents**

**1. OVERVIEW**

- (a) Description of business
- (b) Company history
- (c) Strategy
- (d) Ongoing projects

**2. EXPLORATION PROJECTS**

- (a) Putu Iron Ore Project, Liberia
- (b) Nkout Iron Ore Project, Cameroon
- (c) Other Iron Ore Projects, Cameroon

**3. SUMMARY OF PERFORMANCE**

- (a) Summary of selected quarterly financial information
- (b) Results of operations
  - (i) Consolidated statements of comprehensive (loss)/income
  - (ii) Balance sheet, liquidity, capital resources and cash flows
- (c) Other information
  - (i) Outstanding share data
  - (ii) Assets distributed to Aureus Mining
  - (iii) Property, plant and equipment
  - (iv) Intangible assets
  - (v) Going concern
  - (vi) Transition to International Financial Reporting Standards ("IFRS")
  - (vii) Critical accounting estimates
  - (viii) Investment in associate
  - (ix) Segment information
  - (x) Related party transactions
  - (xi) Off balance sheet arrangements
  - (xii) Subsequent events

**4. FORWARD LOOKING STATEMENTS**

**5. TRENDS IN THE MINING SECTOR**

**6. INTERNAL CONTROL OVER FINANCIAL REPORTING**

**7. OUTLOOK**

# **AFFERRO MINING INC.**

## **Management's Discussion and Analysis**

### **For the period ended June 30, 2011**

The following discussion is management's assessment and analysis of the results and financial condition of Afferro Mining Inc. (the "Company" or "Afferro" or "Afferro Mining") based on International Financial Reporting Standards ("IFRS") applicable to a going concern and should be read in conjunction with the accompanying condensed interim consolidated financial statements and related notes for the six months to June 30, 2011. This management discussion and analysis has been prepared based on information available to the Company as at August 22, 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](http://www.sedar.com) or on the Company's website at [www.afferro-mining.com](http://www.afferro-mining.com).

## **1. OVERVIEW**

### **(a) DESCRIPTION OF BUSINESS**

Afferro is an exploration and development stage company focused on iron ore projects in west Africa and operates in Liberia and Cameroon. Its most advanced projects are the Putu Iron Ore Project in Liberia (38.5% interest) and the Nkout Iron Ore Project in Cameroon (100% interest). 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. Following the Plan of Arrangement ("Arrangement") on 13 April 2011, the Company's gold assets were divested into a new company, Aureus Mining Inc., and the Company changed its name from African Aura Mining Inc. to Afferro Mining. The Company is listed on the TSX Venture Exchange (TSX-V: AFF) and the Alternative Investment Market ("AIM") of the London Stock Exchange (LON: AFF).

### **(b) COMPANY HISTORY**

The Company was incorporated as Zicor Mining Inc. under the *Business Corporations Act* (Yukon Territory) on March 19, 1996. Effective October 5, 1998, Zicor Mining Inc. purchased all interests of Mano by way of a reverse takeover and changed its 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, by Zicor Mining Inc. the Company and its subsidiaries had spent over \$2.4 million in establishing an in-country presence, acquiring, evaluating and exploring prospective properties.

Upon its establishment, Mano Gold Investments Ltd. acquired 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 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 (1991-2002) and in Liberia (1989 to 1996 and 1999 to 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 this economic and political backdrop, the Company's initial eight years were characterised by survival strategies including diversification into diamonds in 2000.

In June 2005, the Company announced that it had been awarded the Putu Mineral Exploration Licence, in Eastern Liberia. On October 14, 2009 the Company announced the completion of its merger with African Aura Resources Ltd. The acquisition made during the 2008-09 financial crisis combined the two companies' cash resources, and added early stage gold and iron ore focus in Cameroon to more advanced Liberian exposure.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

After closing the transaction the Company 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 Limited ("Stellar") completed a reverse takeover of AIM listed West African Diamonds Limited ("WAD"). Shares began trading in Stellar (ticker: STEL) on February 22, 2010. At the same time as the reverse takeover Stellar issued new shares, diluting the Company's interest to a point where it no longer was a subsidiary of the Company.

On 5 April 2011 shareholders approved the Arrangement to split the Company into two separate entities. Afferro is focussing on its iron ore assets and Aureus Mining Inc. ("Aureus") is focussing on its gold assets and hold the Stellar shares. Aureus was listed on the TSX and AIM on April 13, 2011 while Afferro continued its listings on the TSX-V and AIM.

**(c) STRATEGY**

***Introduction***

The Company's strategy is to maximise shareholder value by taking both the Putu Project and Nkout Project through to production. With this in mind, the Company has commenced discussions with a range of investors whose involvement in Afferro would be more strategic in nature and from whom it is anticipated additional finance (whether equity or debt) may be raised for future infrastructure requirements in a manner that limits shareholder dilution and therefore helps to optimise future equity value. In addition, it is expected that these industry partners, as well as having infrastructure capabilities, will have a long-term desire for off-take of mine production. The Company is also seeking to further strengthen its portfolio through acquiring additional exploration acreage in Cameroon.

The Company's management believe it is well placed to implement its strategy through the business strengths discussed below:

***A Strong Portfolio of Iron Ore Assets***

The Company has a strong portfolio of iron ore assets including:

- 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 3.24Bt grading 34.3% iron, announced post period-end on 11<sup>th</sup> July.
- The 100% owned Nkout Iron Ore Project in Cameroon, where the Company announced on the 16<sup>th</sup> June an NI 43-101 compliant inferred resource estimate of 1.42Bt grading 33.6% iron, with 700Mt magnetite banded iron formation (BIF) being promoted to the indicated resource category.
- Early stage iron ore prospects in Cameroon including Ntem and Akom Hills.

***Experienced Board***

The Directors of the Company have extensive experience of operating in Africa and taking projects through development to production. There is a balanced representation of directors with operational, corporate and financial backgrounds. The majority of directors are independent.

***Strong Partnerships***

The Company has a strong technical and financial partner, in Severstal to help develop the Putu Iron Ore Project.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

***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 operating in Cameroon.

**(d) ON-GOING PROJECTS**

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

<b>Country</b>	<b>Project</b>	<b>Commodity</b>	<b>Status</b>	<b>2011 Plans</b>	<b>Project Ownership</b>	<b>Treatment in Financial Statements</b>
Liberia	Putu	Iron ore	MDA awarded; resource upgraded to 3.24Bt	Continue to progress PFS; upgrade resource further and promote to indicated	38.5%	Associate
Cameroon	Nkout	Iron ore	1.42Bt resource delivered	A further resource update is planned; upgrade to indicated; infrastructure scoping study and commence PEA	100% <sup>1</sup>	Subsidiary

1. The Government of Cameroon has a right to receive up a10% stake in the share capital of the operating company.

**2. EXPLORATION PROJECTS**

**(a) Putu Iron Ore Project, 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 venture between the Company (38.5%) and Severstal (61.5%), and the licence is held by Putu Iron Ore Mining Inc ("PIOM"). Since November 2010, both companies have been financing the on-going development in proportion to their shareholding.

The highlights are:

- NI 43-101 compliant resource: 3.24 Bt at 34.3% Fe
- 1.89 Bt of resource at 33.9% Fe classified as indicated and 1.36 Bt at 34.7% Fe classified as Inferred (NI 43-101 compliant)
- Management Target: >3.5 Bt total resource
- Ownership: 38.5%
- Licence area: 425 km<sup>2</sup>
- Target: Haematite/Magnetite deposit with a strike of 13km
- Status: 62,000m drilling programme completed. Extended by a further 19,000m before the end of 2011
- Favourable metallurgy: Modelled iron recoveries of up to 95%, with concentrate grades of up to 70%. Low levels of deleterious materials (<0.3% Al<sub>2</sub>O<sub>3</sub>, 1-4% SiO<sub>2</sub>). Mass recoveries of 42%
- 120km proposed rail line to coast, with favourable topography
- Two potential deep water ports are being assessed either side of Greenville

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

- 25-year renewable Mineral Development Agreement (MDA) ratified in September 2010
  - No free carried interest
  - 4.5% royalty
  - 25% corporate tax

***Mineral Development Agreement (“MDA”)***

The Putu Project MDA, the mineral licence held by PIOM, 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, construction and exploitation of the Putu Project for a period of twenty-five years and includes a two year extension for exploration until September 30, 2012.

***Resource Upgrade***

The Company announced a resource estimate 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. A further announcement was made on the 11<sup>th</sup> July, upgrading the resource by 36% to 3.24Bt at 34.3% iron. 1.89Bt of banded iron formation (“BIF”), representing 58% of the resource has been promoted to Indicated category. The resource is based on 47,713m of drilling of which 36,630m has been assayed. The Putu model is open at depth and SRK recognises that there is potential to increase the resource targeting material that falls below the optimised pit shell.

***Exploration Update***

There have been 4 diamond drill rigs on site since June although one of these rigs has now demobilised leaving three rigs. The 2011 drilling campaign is targeting 48,500m with 24,699m completed up to end June 2011 and 35,846 completed to date.

The prefeasibility study (PFS) for the port and railway for the Putu project was put out to tender and proposals are being received. Phase one of the feasibility study for the Greenville-Zwedru road renovation was launched in June 2011 by Roughton International. Phase one includes meetings with appropriate stakeholders, traffic studies and forecast, land use survey, bridges' survey, and a hydrological study. The final report of Phase one is due by mid-December 2011.

The key deliverables of this project include:

- Increase level of indicated resource by the end of 2011, with a further 19,000m drilling programme
- 1Q 2012: Complete Pre-Feasibility Study. In order to do this commence the following studies in H2 2011:
  - Geotechnical study
  - Additional metallurgical testing
  - Hydrogeological tests
  - Soil baseline study
  - Power generation study
  - Mining study
- 1Q 2013: Complete Definitive Feasibility Study. Recently accelerated from 18 months to 12 months
- 2015: First production

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**(b) 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 southeast 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, subject to a right by the Cameroon government to receive a 10% stake in the share capital of the operating company.

The highlights are:

- Resource: 1.42Bt at 33.6% Fe (from approximately 5.9 km section)
- 700.5 Mt of resource at 32.4% Fe classified as Indicated and 716.5 Mt at 34.8% Fe classified as Inferred (NI 43-101 compliant)
- Management Target: 4 Bt total resource
- Ownership: 100%
- Licence area: 489 km<sup>2</sup>
- Test work proves high grade concentrate and sinter fines potential
- Target: Major magnetic geophysical anomaly 20 km in length
- Status: Resource definition drilling (greater than 35,000m planned in 2011)
- Potential for direct shipping ore ("DSO") being investigated
- 330km from proposed deep water port, currently under construction at Kribi
- 30km from Sundance's proposed rail to Kribi. Synergies possible from cooperation, both on rail and berth in port

***Resource Estimate***

The Company announced its maiden inferred mineral resource estimate at Nkout on February 1, 2011. In total, SRK estimated an inferred mineral resource of 1.04Bt grading 34.2% iron. On June 16, 2011 the Company reported a 36% increase in the resource to 1.42Bt at 33.6% iron. 700Mt of the magnetite BIF, representing 50% of the resource, has been promoted to Indicated category at Nkout Centre. The resource estimate now covers approximately 5.9 km of the 20 km long magnetic anomaly. A further resource update to include oxidised zone drilling is expected in the fourth quarter.

***Exploration Programme***

The Company has drilled approximately 18,500m on the project, including 9,200m in the six months to end June 2011 and 12,900m for the year to-date. A total of approximately 35,000m of drilling is targeted in the current year. Five rigs are currently on site, two of which are owned and operated by the Company. The number of rigs will increase to seven by September 2011, of which four will be in-house owned and operated. These owner-operator rigs will be primarily for the shallower reconnaissance drilling to minimise downtime on the contractor rigs, and optimising the drilling cost. There are approximately 300 workers on site involved in various aspects of the project including: from line cutting, drill pad preparation, infrastructure and construction, drivers, security, camp and kitchen staff, drilling offsideers etc. The majority of these workers come from the nearby town of Djoum.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

The key deliverables of this project include:

- To increase the magnetite resource at Nkout (recently increased to 1.42Bt)
- To ascertain the quantity of DSO potential, with releases planned for November 2011
- Complete logistics and infrastructure scoping study in Q3. To assess both cooperative infrastructure plans and stand-alone plans, with DSO potential ascertained
- Commence a preliminary economic assessment in Q4 which will deliver results during the first half of 2012
- Completion of the northern and southern accesses
- Completion of the southern fly camp
- Upgrade of the health and safety procedures
- Recruitment of additional key staff;
- Appoint an ESIA contractor to prepare a baseline summary

**(c) Other Iron Ore Projects, Cameroon**

The Company holds interests in two other earlier stage iron ore projects in Cameroon, the Ngoa Hill and Akom Hills projects.

The Ngoa Hill project is located 3 km south of the Nkout Project on the adjacent Essong licence, which is 70% owned by the Company. The project contains one prospect which is approximately 2 km long and stands approximately 100m higher than the Nkout Project. A drilling programme at Ngoa included 10 reconnaissance holes. This project will be subject to a more detailed exploration programme at the appropriate time.

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 km 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 km from which samples have been collected.

The work undertaken to date on Ntem has been for gold exploration. However, recent preliminary exploration has identified the potential for iron ore which is currently the subject of interpretation.

A geophysical interpretation of the 2010 airborne survey data will be undertaken in Q4 2011 for Akom Hills.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**3. SUMMARY OF PERFORMANCE**

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

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

US Dollars	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Loss for the period from continuing operations	(340,288)	(4,984,940)	(1,677,995)	(992,778)
Income/(Loss) attributable to the owners of the parent company	(340,288)	(6,375,494)	(3,987,318)	(1,453,232)
Basic & diluted loss per share from continuing operations	(0.004)	(0.058)	(0.018)	(0.010)
Basic & diluted loss per share from continuing & discontinued operations	(0.004)	(0.074)	(0.052)	(0.021)
Total assets	40,148,256	90,326,902	91,336,564	64,988,297
US Dollars	June 30, 2010	March 31, 2010	December 31, 2009 <sup>(1)</sup>	September 30, 2009 <sup>(1)</sup>
(Loss)/Income for the period from continuing operations	(1,502,217)	(1,519,788)	582,892	(4,787,763)
Income/(loss) attributable to the owners of the parent company	(4,884,701)	716,206	582,892	(4,787,763)
Basic & diluted (loss)/income per share from continuing operations	(0.023)	(0.023)	0.028	(0.121)
Basic & diluted income/(loss) per share from continuing & discontinued operations	(0.073)	0.014	0.028	(0.121)
Total assets	65,133,871	55,057,068	59,467,811	44,307,648

<sup>(1)</sup> Information for 2009 is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

The Company's performance is not affected by seasonal trends. 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 attributable to owners of the parent of \$582,892 and \$716,206 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.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**(b) RESULTS OF OPERATIONS**

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

**(a) Review of three months ended June 30, 2011 (unaudited) compared to the three month period ended June 30, 2010 (unaudited).**

The loss in Q2, 2011 attributable to owners of the parent at \$0.3 million compares with a loss of \$4.9 million for the corresponding period last year. The reduction in the loss of \$4.6 million is due to a number of factors which are highlighted below:

- (1) Wages and salaries are showing a credit balance of \$0.6 million, a reduction over last year of \$0.7 million. This has arisen due to the reduction in the accrual for UK employer national insurance contributions on "in the money" options. This relates to the cancellation of the pre-split UK-held options and award of new options (the number of options and terms remained the same);
- (2) There was no stock based compensation charge in the quarter as no options were granted. In Q2 last year the charge was \$0.9 million arising from the award of stock options;
- (3) Share in results of associate relates to SLIO and amounted to \$0.1 million in Q2. This was \$0.1 million higher than last year due to interest charges on the \$15 million loan facility from Severstal which started in Q3 2010 and higher depreciation charges;
- (4) The finance expense in Q2 2010 relates to interest on convertible debentures. The convertible debentures were converted by the holders on September 28, 2010 and from this date no further interest charge was incurred;
- (5) The loss from discontinued operations in the quarter was zero. This compares with an expense last year of \$3.4 million. Two key components of the 2010 charge was the impairment of the North Bea gold licence and the Company's share in the losses of Stellar; and
- (6) Other expenses of \$0.6 million increased by \$0.4 million over 2010. An increase in travel related expenditure which included an analyst trip to Nkout accounted for more than half of the increase.

**(b) Review of six months ended June 30, 2011 (unaudited) compared to the six month period ended June 30, 2010 (unaudited).**

The loss for the six months to June 30, 2011 attributable to owners of the parent at \$6.7 million compares with a loss of \$4.2 million for the corresponding period last year. The main variances are detailed below:

- (1) Legal and professional fees at \$1.2 million in Q2 are \$0.9 million above last year. A significant part of the increase relates to the costs of the Arrangement including legal fees \$0.5 million, accounting fees \$0.1 million, share registrar fees \$0.1 million; broker/nominated advisor fees \$0.1 million;
- (2) Depreciation for the period at \$0.2 million is \$0.1 million above last year. The net book value of property, plant and equipment has doubled since Q2 last year resulting in a doubling of the depreciation charge;
- (3) Wages and salaries at \$0.2 million for the period are \$0.1 million below last year. The reversal of the majority of the accrual for national insurance contributions on the "in the money" stock options (see (i) above), had the impact of reducing wages and salaries by \$0.3 million. Without the reversal wages and salaries would have been \$0.2 million higher than last year. The reason for this is twofold: first there are more staff (up \$0.1 million); and secondly payments have been made for national insurance on the exercise of options amounting to \$0.1 million;

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

- (4) The company's sterling cash deposits benefited from a stronger pound giving rise to a \$0.1 million foreign exchange gain for the period;
- (5) Stock based compensation at \$2.4 million is \$0.7 million higher than last year. The higher charge reflects a higher fair value per option of \$1.07 in 2011 versus \$0.69 in 2010;
- (6) Other expenses of \$1.2 million increased by \$0.8 million over 2010. The main expense movements included travel related costs, stock market and registrar fees;
- (7) The finance expense, which relates to the interest on convertible debentures, was zero in the period compared with a charge of \$0.6 million last year. The convertible debentures were converted by the holders on September 28, 2010 and from this date no further interest charge was incurred. In addition to the interest charge Q2 2010 included an unrealised foreign gain as a result of the convertible debentures being denominated in pounds sterling;
- (8) Share in results of associate relates to SLIO and amounted to \$0.2 million for the period. This was \$0.2 million higher than last year due to interest charges on the \$15 million loan facility from Severstal which started in Q3 2010 and higher depreciation charges; and
- (9) Loss on discontinued operations of \$1.4 million in the period was in line with the 2010 charge.

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

**Balance Sheet at June 30, 2011 versus December 31, 2010**

Total assets of \$40.1 million are \$51.2 million below those held at the 31<sup>st</sup> December 2010. Upon the completion of the Arrangement on April 13, 2011 assets valued at \$48.7 million were distributed to Aureus Mining. Cash and cash equivalents of \$7 million are \$14.7 million below the December 2010 level. Non-current assets at \$32.3 million are \$14.5 million above the December level due to the reasons set out below. The increase in non-current assets of \$14.4 million is the result of the Company meeting its 38.5% share of expenditure at Putu of \$7.7 million; higher deferred exploration costs in Cameroon (including \$5.9 million at the Nkout project) and property, plant and equipment of \$1.8 million, \$0.8 million higher than the year end figure. Property, plant and equipment additions included vehicles (\$0.4 million) and machinery and equipment (\$0.6 million).

Total liabilities of \$2.6 million are \$0.2 million lower than those held at the 31<sup>st</sup> December 2010. An increase in trade and other payables of \$0.8 million was partly offset by a fall in related party balances (\$0.3 million) and the distribution in the Arrangement of liabilities related to Aureus Mining (\$0.7 million). The increase in trade and other payables over December 2010 was due to higher trade payables (up \$0.9 million) of which Cameroon accounted for \$0.4 million offset by lower accruals.

Total shareholders' equity of \$37.6 million at June 30, 2011 is \$60.0 million below the December 2010 level. The main movements were: the increase in the share based payments reserve of \$2.4 million following the issue of stock options in Q1, 2011; a reduction in the cumulative translation reserve of \$0.9 million due to the translation of sterling balances into US dollars; and the increase in the deficit of \$54.9 million mainly due to the distribution of net assets to Aureus Mining.

**Liquidity and Capital Resources**

The Company's primary source of funding has been the sale of equity securities. The Company is not in production and does not generate cash flows from operations. As at June 30, 2011 the Company had cash and cash equivalents of \$7.0 million compared to \$36.1 million as at December 31, 2010 (\$21.7 million relating to continuing operations and \$14.4 million relating to assets held for distribution). The Company has working capital of \$5.4 million as at June 30, 2011. The Company has no debt. The majority of the Company's cash and cash equivalents are invested with a leading multi-national bank with an AA- credit rating. In order to meet its planned exploration budget the Company raised \$25.3 million in July 2011. The current cash position of the Company is \$27.9 million.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**Cash Flows**

**(i) Cash flows for the three months ended June 30, 2011 compared to the three months ended June 30, 2010**

The net decrease in cash for Q2, 2011 amounted to \$20.4 million leaving a cash balance of \$7 million. This compares with an increase in cash of \$12.1 million for the corresponding period last year leaving a cash balance of \$13.6 million at the end of Q2, 2010.

The cash outflow from operating activities of \$1.5 million includes overhead related costs such as the corporate costs associated with the Arrangement, recurring professional fees and corporate salaries. The cash outflow was \$1.1 million lower than last year.

The cash outflow from investing activities in the quarter was \$8.2 million, \$6.2 million higher than last year. The variance is due to higher exploration expenditure (\$1.9 million) together with payments for Putu of \$4.3 million which last year were met by our partner, Severstal.

The cash outflow from financing activities amounted to \$10.7 million compared with an injection of funds last year. The outflow this quarter arose primarily as a result of the distribution of \$10.8 million of cash to Aureus. In Q2 last year \$16.9 million was raised from the issuance of shares.

**(ii) Cash flows for the six months ended June 30, 2011 compared to the six months ended June 30, 2010**

The net decrease in cash for the period amounted to \$29.2 million leaving a cash balance of \$7 million. This compares with an increase in cash of \$9.9 million for the corresponding period last year leaving a cash balance of \$13.6 million.

The cash outflow from operating activities of \$2.6 million is \$0.5 million higher than last year primarily due to Arrangement costs.

The cash outflow from investing activities of \$17.4 million is \$12.6 million higher than last year. The variance is due to higher exploration expenditure (\$3.6 million) together with payments for Putu of \$8 million which last year were met by our partner, Severstal.

The cash outflow from financing activities amounted to \$10.1 million compared with an injection of funds last year of \$16.8 million. The outflow in the period arose primarily as a result of the \$10.8 million distribution of cash to Aureus Mining in Q2. Last year \$16.9 million was raised from the issuance of shares while no fund raisings took place in the first half of 2011.

**(c) OTHER INFORMATION**

**(i) Outstanding share data**

	Shares	Amount \$
Balance at January 1, 2010	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 stock options	11,500	18,652
Balance at December 31, 2010	85,864,092	104,366,164
Cancelled shares	(444)	-
Exercise of stock options	426,000	629,625
Balance at June 30, 2011	<b>86,289,648</b>	<b>104,995,789</b>

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

On February 21, 2011, the Company issued 229,125 new common shares in exchange for the exercise of 229,125 stock options at a weighted average exercise price of Cdn\$1.38.

On March 3, 2011, the Company issued 159,375 new common shares in exchange for the exercise of 159,375 stock options at a weighted average exercise price of Cdn\$1.65.

On June 15, 2011, the Company issued 37,500 new common shares in exchange for the exercise of 37,500 stock options at a weighted average exercise price of Cdn\$1.04.

**Stock options**

In connection with the Arrangement, each African Aura option outstanding immediately prior to the completion was exchanged for one Afferro option and one Aureus Mining option and the African Aura option so exchanged was immediately thereupon cancelled.

The issuance of Afferro options and Aureus Mining options is intended to put the holders of the options in the same position (or as close as possible thereto) as each shareholder of African Aura who participated in the Arrangement. Therefore it is not necessary to value the African Aura options prior to the effective time of the Arrangement and Afferro and Aureus options after the effective time using an option pricing model as these options are not a new grant or a re-pricing but rather an effective continuation of the previous options.

The exercise price of each Afferro option and each Aureus Mining option was determined in accordance with the following formulae, in each case rounded up to the nearest whole cent:

- the exercise price of each Afferro option represents the product of (a) the original exercise price of the African Aura option multiplied by (b) the difference between one (1) and the Exercise Price Proportion, an amount determined in accordance with the fraction A/B where: (A) is the one day volume weighted average trading price of one Aureus common share following the completion of the Arrangement; and (B) is the aggregate of the one day volume weighted average trading price of one Aureus common share and one Afferro common share following the completion of the Arrangement; and
- the exercise price of each Aureus Mining option represents the product of (a) the original exercise price of the African Aura option multiplied by (b) the Exercise Price Proportion.

The Exercise Price Proportion was calculated as 0.3978. The exercise prices of the Afferro options have been restated to reflect the exercise prices so determined in accordance with the Arrangement.

On June 30, 2011, the Company's UK tax resident employees surrendered a total of 752,614 options, granted under the Company's Share Option Plan and were issued the same number of new options under the Enterprise Management Incentive Plan ("EMI Plan") adopted by the Company which have the same exercise price and the same expiry date as the original options. The issue of options under the EMI Plan will allow employees to benefit from UK tax concessions.

The fair value of the 2,285,000 stock options granted in the period June 30, 2011 (period ended June 30, 2010: 2,458,750) was estimated at \$1.07 per option (period ended June 30, 2010: \$0.69) at the grant date based on the Black-Scholes option-pricing model using the following assumptions:

	<b>June 30, 2011</b>	June 30, 2010
Dividend yield	<b>0%</b>	0%
Risk free interest rate	<b>2.47%</b>	3.05%
Expected life	<b>5 years</b>	5 years
Weighted average expected volatility on AIM	<b>44%</b>	69%
Weighted average exercise price	<b>Cdn\$1.66</b>	Cdn\$0.74

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

A summary of the Company's stock options is detailed below:

	June 30, 2011		December 31, 2010	
	Number of options	Weighted average exercise price per share Cdn\$	Number of options	Weighted average exercise price per share Cdn\$
Beginning of the period	5,713,306	0.82	3,359,806	0.86
Options granted	2,285,000	1.66	2,698,750	0.80
Options forfeited	(143,812)	(0.95)	(6,250)	(0.96)
Options expired	-	-	(327,500)	(1.06)
Options exercised	(426,000)	(0.91)	(11,500)	(1.03)
End of the period	<b>7,428,494</b>	<b>1.07</b>	<b>5,713,306</b>	<b>0.82</b>

Information relating to stock options outstanding and vested at June 30, 2011 is as follows:

	June 30, 2011		December 31, 2010	
Expiry date	Exercise price per share Cdn\$	Number of stock options outstanding and vested	Exercise price per share Cdn\$	Number of stock options outstanding and vested
July 31, 2011	1.11	216,875	1.11	339,125
March 16, 2012	1.11	75,000	1.11	75,000
May 31, 2012	1.11	37,500	1.11	37,500
January 17, 2013	0.96	793,750	0.96	1,118,125
July 1, 2013	1.69	53,968	1.69	63,780
January 19, 2014	0.48	560,625	0.48	650,000
January 13, 2015	0.73	1,184,750	0.73	1,208,750
May 13, 2015	0.75	1,250,000	0.75	1,250,000
June 6, 2015	0.25	181,530	0.25	181,530
November 1, 2015	1.36	240,000	1.36	240,000
December 1, 2015	0.51	235,498	0.51	235,498
December 1, 2015	0.75	98,124	0.75	98,124
December 1, 2015	1.01	29,437	1.01	29,437
January 10, 2016	1.66	2,285,000	-	-
January 1, 2017	0.86	19,625	0.86	19,625
June 28, 2017	1.38	166,812	1.38	166,812
	<b>1.07</b>	<b>7,428,494</b>	<b>0.82</b>	<b>5,713,306</b>

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**(ii) Assets distributed to Aureus Mining**

In November 2010 the Company committed to the Arrangement, pursuant to which the Company's interests in its gold assets (including the New Liberty Gold Project in Liberia), shares representing approximately 14% of the outstanding ordinary shares of Stellar Diamonds plc ("Stellar") and cash and cash equivalents equal to approximately 40% of the Company's total cash balance as at April 13, 2011, the effective time of the Arrangement ("Effective Time") were transferred to Aureus Mining (the "Transferred Assets") together with certain related liabilities. As a result of the Arrangement, each shareholder of the Company received one new common share of the Company and one common share of Aureus Mining for each common share of the Company held by such shareholder at the Effective Time. In addition, the Company changed its name to "Afferro Mining Inc." as part of the Arrangement.

On April 5, 2011, African Aura received the requisite shareholder approval for the Arrangement at a special meeting of shareholders. On April 13, 2011, the Arrangement was completed and as a result, the Transferred Assets were distributed to Aureus Mining. The major classes of assets and liabilities distributed to Aureus Mining on April 13, 2011 and the operations classified as held for distribution as at December 31, 2010 are as follows:

	<b>April 13, 2011</b>	December 31, 2010
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	<b>10,776,952</b>	14,441,778
Trade and other receivables	<b>31,434</b>	28,905
Intangible assets		
- Resource properties	<b>5,459,615</b>	5,459,615
- Deferred exploration costs	<b>27,924,114</b>	25,691,032
Property, plant and equipment	<b>668,662</b>	613,878
Available for sale asset - Stellar Diamonds plc	<b>3,824,342</b>	-
Investment in associate	-	5,117,752
<b>Total assets</b>	<b>48,685,119</b>	<b>51,352,960</b>
Trade and other payables	<b>450,147</b>	515,193
Due to related party	-	141,349
<b>Total liabilities</b>	<b>450,147</b>	<b>656,542</b>

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

The loss from discontinued operations which has been included in the consolidated statement of comprehensive (loss)/income, is as follows:

	<b>3 months ended June 30, 2011</b>	3 months ended June 30, 2010	<b>6 months ended June 30, 2011</b>	6 months ended June 30, 2010
	\$	\$	\$	\$
Revenue	-	-	-	320,367
Cost of sales	-	-	-	(761,006)
Gross loss	-	-	-	(440,639)
Impairment of intangible assets	-	(2,504,604)	-	(2,504,604)
Other expenses	-	(28,848)	<b>(97,230)</b>	(361,595)
Gain on disposal of Stellar	-	-	-	2,913,773
Loss of significant influence in Stellar	-	-	<b>(744,681)</b>	-
Share of results of Stellar	-	(849,032)	<b>(548,729)</b>	(1,065,951)
Interest income	-	-	<b>86</b>	404
Loss from discontinued operations	-	(3,382,484)	<b>(1,390,554)</b>	(1,458,612)
Attributable to:				
Owners of the parent	-	(3,382,484)	<b>(1,390,554)</b>	(1,146,489)
Non-controlling interest	-	-	-	(312,123)
	-	(3,382,484)	<b>(1,390,554)</b>	(1,458,612)

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

	Mining assets \$	Machinery and equipment \$	Vehicles \$	Total \$
<b>Cost</b>				
At January 1, 2010	10,692,283	2,106,359	256,848	13,055,490
Additions	-	367,947	829,062	1,197,009
Disposal of subsidiary	(10,692,283)	(1,332,563)	(90,658)	(12,115,504)
Transfer to assets held for distribution	-	(187,383)	(528,250)	(715,633)
Foreign exchange	-	(24,314)	(3,349)	(27,663)
At December 31, 2010	-	930,046	463,653	1,393,699
Additions	-	593,244	429,149	1,022,393
Foreign exchange	-	1,196	-	1,196
At June 30, 2011	-	<b>1,524,486</b>	<b>892,802</b>	<b>2,417,288</b>

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

	Mining assets \$	Machinery and equipment \$	Vehicles \$	Total \$
<b>Depreciation</b>				
At January 1, 2010	741,362	766,057	73,932	1,581,351
Charge for the year	246,145	291,187	106,169	643,501
Disposal of subsidiary	(987,507)	(691,039)	(48,466)	(1,727,012)
Transfer to assets held for distribution	-	(36,956)	(64,798)	(101,754)
Foreign exchange	-	(1,240)	(252)	(1,492)
At December 31, 2010	-	328,009	66,585	394,594
Charge for the period	-	141,127	108,756	249,883
Foreign exchange	-	(127)	-	(127)
At June 30, 2011	-	<b>469,009</b>	<b>175,341</b>	<b>644,350</b>
<b>Net book value</b>				
At January 1, 2010	9,950,921	1,340,302	182,916	11,474,139
At December 31, 2010	-	602,037	397,068	999,105
At June 30, 2011	-	<b>1,055,477</b>	<b>717,461</b>	<b>1,772,938</b>

Additions totalled \$1.1m and included computer equipment of \$137k and field equipment of \$456k. The vehicle additions of \$492k relate to vehicles used in Cameroon. Additional vehicles and a drill rig for Cameroon will be supplied in September.

**(iv) Intangible assets**

	January 1, 2011 \$	Additions \$	June 30, 2011 \$
<b>Resource properties:</b>			
<b>Cameroon</b>			
Nkout	963,089	-	<b>963,089</b>
Ntem	523,203	-	<b>523,203</b>
Akonolinga	399,984	-	<b>399,984</b>
	1,886,276	-	<b>1,886,276</b>
<b>Deferred exploration costs:</b>			
<b>Cameroon</b>			
Nkout	4,398,028	5,940,273	<b>10,338,301</b>
Ntem	214,377	6,081	<b>220,458</b>
Akonolinga	102,302	2,714	<b>105,016</b>
Ngoa	85,067	238,562	<b>323,629</b>
	4,799,774	6,187,630	<b>10,987,404</b>

The majority of the expenditure during the period (96%) was spent on Nkout and supported the delivery of an additional 0.4Bt of estimated iron resource and promoting 50% of the resource to indicated category. The discovery cost of 2 US cents per tonne of contained iron ore is extremely low. The Ngoa project has a 30% minority shareholder.

The major costs in the six month period included drilling (\$2.8 million), salaries (\$1.2 million) and project/field office costs (\$0.7 million). The drilling to date has been at Nkout.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**(v) 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 June 30, 2011 the Company had cash and cash equivalents of \$7 million. In July, post period end the Company raised \$25.3 million of gross proceeds to finance the exploration budget. The directors believe that the current funds will be sufficient to finance the operation for the foreseeable future.

**(vi) Transition to IFRS**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that significantly affects financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a 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 adoption 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 has involved 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 included 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;
- Phase Two, an in depth analysis of the impact of those areas identified under phase one; 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.

The Company's IT, accounting and financial reporting systems were not significantly impacted as a result of the transition to IFRS and no changes in the Company's system of internal controls over financial reporting were required upon the adoption of IFRS.

The note to the condensed interim consolidated financial statements provides more detail on the Canadian GAAP to IFRS differences, our accounting policy choices and optional exemptions taken under IFRS1 – First time adoption of International Financial Reporting Standards.

Upon completion of the Company's transition project the following adjustments were identified as necessary:

**Assets distributed to Aureus Mining**

The Company transferred certain assets and liabilities to Aureus Mining on April 13, 2011. As the Company was committed to such a distribution prior to December 31, 2010 the provisions of IFRS5 – Non-current Assets Held for Sale and Discontinued Operations have been applied to the comparative year end. Canadian GAAP permits a specific exemption whereby assets to be disposed of by other than sale should be classified as held until disposed of. This difference has no impact on net assets or total comprehensive (loss)/income.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**Translation of foreign subsidiaries**

All of the Company's foreign operations were classified as integrated under Canadian GAAP whereby foreign currency subsidiaries were translated into the group presentation currency using the temporal method with resulting differences taken to income/(loss). IAS21 – The Effects of Changes in Foreign Exchange Rates does not distinguish between integrated and self-sustaining foreign operations and all foreign currency subsidiaries are translated into the group presentation currency using the closing rate method with resulting differences recognised in other comprehensive (loss)/income. Additionally as a result of the exemption taken under IFRS1 to reset the cumulative translation reserve to zero upon transition to IFRS a balance of \$21,755 in the accumulated other comprehensive loss reserve was taken to deficit. The Company recognised a decrease in equity of \$202,247 as at January 1, 2010 as a result of these differences (June 30, 2010 \$970,352, December 31, 2010 \$433,955).

**Financial statement presentation changes**

The transition to IFRS has resulted in minor financial statement presentation changes. The changes to the statement of financial position relate to minor changes to the descriptions, all classifications remain the same. Changes to the statement of comprehensive (loss)/income relate to classification changes for certain items of expense. The most significant of these changes is that wages and salaries have been broken out of administrative and office expenses and interest on convertible debentures has been classified as a finance expense. None of these changes has an impact on total comprehensive (loss)/income.

**Reconciliation of Cash Flows**

The IFRS transition did not have any impact on the Company's cash flows from operating, financing, or investing activities.

**(vii) Critical accounting estimates**

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant balances and transactions affected by management estimates include, but not limited to, the carrying value of Company's investment in associates, resource properties, deferred exploration costs, the calculation of the fair value of share based payments. Actual results could differ from those estimates.

The amounts used to estimate fair values of stock options issued are based on estimates of future volatility of the Company's share price, expected lives of the options, expected dividends to be paid by the Company and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the consolidated financial statements of future periods could be significant.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**(viii) Investment in associates**

The investment in associates relates to the Company's investment in Severstal Liberia Iron Ore Ltd ("SLIO"). During the period ended June 30, 2011 the Company's ownership of Stellar was diluted to 14.2%, thus significant influence was lost and Stellar was accounted for as an available-for-sale financial instrument until its distribution to Aureus. The movement in the investment in associate is detailed below:

	SLIO Continuing \$	Stellar Discontinued \$	Total \$
At January 1, 2010	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
Additional investment	7,693,547	-	7,693,547
Share in result in associates	(197,399)	(548,730)	(746,129)
Loss of significant influence of associate	-	(744,680)	(744,680)
Transfer to financial instruments	-	(3,824,342)	(3,824,342)
<b>At June 30, 2011</b>	<b>17,577,226</b>	<b>-</b>	<b>17,577,226</b>

**(ix) Segment information**

The Company is engaged in the acquisition, exploration and development of iron ore in the West African countries of Liberia and Cameroon. Information presented to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is focused on the geographical location of the exploration commodity. The reportable segments under IFRS 8 are as follows:

- Cameroon exploration;
- Liberia exploration;
- Discontinued operations of the gold properties and diamond interests; and
- Corporate and other activities.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

Following is an analysis of the Group's results, assets and liabilities by reportable segment for the period ended June 30, 2011:

	Cameroon	Liberia	Discontinued operations	Corporate and other	Total
	\$	\$	\$	\$	\$
Segment assets	15,150,816	17,577,226	43,491	7,376,723	40,148,256
Segment liabilities	(1,416,447)	-	-	(1,159,331)	(2,575,778)

**For the 6 months ended June 30, 2011**

Loss for the period	(538,611)	(197,399)	(1,390,554)	(4,589,218)	(6,715,782)
Depreciation of property, plant and equipment	232,716	-	46,041	17,167	295,924
Capital additions					
– property, plant and equipment	928,225	-	100,824	94,169	1,123,218
– intangible assets	6,187,631	-	2,233,305	-	8,420,936

**For the 3 months ended June 30, 2011**

(Loss)/Income for the period	(421,852)	(110,206)	-	191,770	(340,288)
Depreciation of property, plant and equipment	135,261	-	-	12,256	147,517
Capital additions					
– property, plant and equipment	200,977	-	-	8,055	209,032
– intangible assets	3,485,790	-	98,481	-	3,584,271

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

Following is an analysis of the Group's results, assets and liabilities by reportable segment for the period ended June 30, 2010:

	Cameroon \$	Liberia \$	Discontinued operat ions \$	Corporate and other \$	Consolidated \$
Segment assets	3,852,999	7,184,322	36,652,390	17,444,160	65,133,871
Segment liabilities	(156,578)	-	(1,270,279)	(3,933,407)	(5,360,264)
<b>For the 6 months ended June 30, 2010</b>					
Loss for the period	(803,395)	-	(1,458,612)	(2,218,611)	(4,480,618)
Depreciation of property, plant and equipment	(103,718)	-	(284,396)	(12,956)	(401,070)
Impairment of intangible assets	-	-	(2,504,604)	-	(2,504,604)
Capital additions					
– property, plant and equipment	81,982	-	67,935	55,322	205,239
– intangible assets	1,328,322	-	3,236,669	-	4,564,991
<b>For the 3 months ended June 30, 2010</b>					
Loss for the period	(776,769)	(13,006)	(3,688,314)	(718,735)	(5,196,824)
Depreciation of property, plant and equipment	(47,015)	-	(7,114)	(9,562)	(63,691)
Impairment of intangible assets	-	-	(2,504,604)	-	(2,504,604)
Capital additions					
– property, plant and equipment	80,184	-	61,550	4,565	146,299
– intangible assets	767,884	-	1,041,417	-	1,809,301

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**(x) Related party transactions**

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

	<b>3 months ended June 30, 2011 \$</b>	3 months ended June 30, 2010 \$	<b>6 months ended June 30, 2011 \$</b>	6 months ended June 30, 2010 \$
<b>Continuing operations</b>				
Incurring management fees	<b>226,343</b>	56,189	<b>378,140</b>	182,345
Incurring directors fees	<b>51,129</b>	115,056	<b>127,131</b>	167,794
Management and office service fees to Aureus Mining	<b>27,504</b>	-	<b>27,504</b>	-
Consulting and service fees to Stellar Diamonds plc.	<b>27,192</b>	27,192	<b>54,384</b>	27,192
Consulting and service fees to SLIO	<b>10,481</b>	22,940	<b>23,216</b>	47,487
<b>Discontinued operations</b>				
Incurring professional fees and consultancy services by a director	<b>12,282</b>	-	<b>78,311</b>	-
Incurring professional fees and consultancy services by a director of Aureus Mining	-	-	<b>29,167</b>	-
Incurring geologist fee with a company related by a common director	-	-	<b>2,935</b>	-

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

The amounts due from/(to) related parties which are included in trade and other payables are as follows:

	<b>June 30, 2011 \$</b>	December 31, 2010 \$
Aureus Mining	<b>225,405</b>	-
Stellar Diamonds plc.	<b>40,729</b>	-
SLIO	<b>43,491</b>	(345,141)
	<b>309,625</b>	(345,141)

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.

**(xi) Off balance sheet arrangements**

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

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

**(xii) Subsequent Events**

On July 5, 2011 46,875 new common shares were issued by the Company pursuant to the exercise of stock options with a weighted average price of Cdn\$1.01.

On July 22, 2011, the Company announced that it has completed a private placing raising gross proceeds of £15.5 million (\$25.3 million at the exchange rate of \$1.63) consisting of 17,318,897 new common shares of no par value in the capital of the Company at 90 pence (\$1.47) per share. The direct costs to issue the shares amounted to \$1.1 million.

On July 25, 2011 the Company issued 150,000 options to Bevan Metcalf, CFO, with an exercise price of Cdn\$1.50 per share which is in connection with a full time position in the Company.

On July 28, 2011 259,280 new common shares were issued by the Company pursuant to the exercise of stock options with a price of Cdn\$1.11 of which 62,500 shares were issued to Guy Pas, Non-Executive Director.

**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: exploration risks, 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**

i) General

After bottoming in early 2009, the industry recovered much more quickly than most would have predicted. Although the recovery remained fragile, the global economy improved markedly over the course of 2009 and into 2010. Metals prices improved steadily since bottoming in early 2009, and were again well above their long-term trends through most of 2010. 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. Markets such as London's AIM have been hit hard over the last few years with very few new listings in the mining sector. 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. Responding to rising metal prices most mining companies increased their exploration budget in 2010. Metals Economics Group's reports a 2010 exploration budget total of \$11.2 billion. Regionally, Latin America (led by Mexico, Peru, Chile, Brazil, and Argentina) was the top exploration destination in 2010, a position it has held for the better part of two decades, while Canada was the top country overall. Gold was the leading target, attracting more than half the global exploration budget, with copper a distant second. The challenge for companies is to find and develop quality assets, which is becoming more and 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.

**AFFERRO MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2011**

ii) Iron Ore

The iron ore market continues to be dominated by the heavyweights of the iron ore sector with major Australian and Brazilian iron ore producers exploiting their respective iron ore deposits. Rising demand for steel driven primarily by the demand from China, has led to an increase in demand for iron ore, and the resultant increase in iron ore prices has led to it being one of the best performing sectors of recent years. China has been the key driver of iron ore pricing and demand in the current cycle. In 1990 China's seaborne imports were only ~10Mt. A decade later in 2000 this had increased to 72Mt, less than half of Western Europe's. By 2005, China imports were 276Mt compared to Western Europe's 191Mt and in 2009 China imported 628Mt compared to the Rest of the World only being ~ 309M. Despite concerns of Chinese growth slowing, coupled with stagnation in Europe, the supply side continues to struggle to meet demand supporting a favourable iron ore price in the medium term. Higher iron ore prices have led to lower grade iron ore deposits that require beneficiation and large capital expenditures to now be economical. Africa represents a promising new source of iron ore to help increase global supply. China is currently making significant investment into the African region either through direct investment in African iron ore projects, off-take agreements or financing packages to assist in bringing the projects to fruition.

iii) Capital Markets

Afferro, like many other companies in the mining sector has lost significant value as a result of market volatility. Despite this the Company continues to expand its resource base. The directors are confident that the implementation of its strategy will generate significant value for shareholders in the future.

**6. INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. 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 do not expect that the Company's disclosure controls and internal control procedures will prevent all errors and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of that system are met. Other than changes related to our IFRS transition plan, there have been no changes in our internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**7. OUTLOOK**

As an iron ore company, Afferro is now focused on developing its highly promising assets in Cameroon (Nkout) and Liberia (Putu). The key objectives for the remainder of 2011 are to:

- 1) Complete the extended 81,000m drill programme at Putu by Q4 2011 and progress other studies in order to complete the pre-feasibility study by Q1 2012;
- 2) Further increase the magnetite BIF resource at Nkout;
- 3) Identify additional amounts of potential direct shipping ore material at Nkout by Q4 2011;
- 4) Complete the logistics and infrastructure scoping study at Nkout by Q4 2011; and
- 5) Commence a preliminary economic assessment on Nkout after the delivery of the scoping study;
- 6) Progress discussions with strategic investors.

On Behalf of the Board,  
AFFERRO MINING INC.

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