

Africa Aura Mining Inc. | Annual report and accounts 2009

# The start of value creation



**african aura**  
mining inc



**African Aura Mining Inc.** was born in October 2009 following Mano River Resources Inc's take-over of African Aura Resources Limited (AAR). The Company is incorporated in British Columbia, Canada and is listed on the TSX-V (Ticker:AUR) and on London's AIM (Ticker:AAAM). African Aura is focused on the development of world-class gold and iron-ore deposits in sub-Saharan Africa and has an impressive exploration and development portfolio.

African Aura's assets include the 100% owned New Liberty gold deposit and the 38.5% owned Putu iron ore project, in Liberia. A 10,000m confirmation drilling programme at New Liberty was completed in the second quarter of 2010, with the aim being to further define the gold resource from its current 1.4 million ounces measured and indicated level. The Company's target is to deliver a revised definitive feasibility study during Q2 2011. The Putu iron ore project is being explored and operated by the Company's joint venture partner, Severstal Resources. The project has an independent inferred mineral resource of 1.08 billion tonnes at an average grade of 37.6% iron (Fe) defined from 2.6km of the projects 13km strike, or just 22% of the ridge. A pre-feasibility study is expected to be completed during 2012.

The Company acquired both gold and iron ore assets in Cameroon following the take-over of AAR. Mapping at the Nkout iron ore project has shown a 12km long, iron rich (Itabirite/BIF) ridge and an airborne geophysical survey set the targets for a drill programme planned to commence Q2 2010.

Additionally, the Company also has a 30% interest in diamond producer Stellar Diamonds plc, which listed on AIM in February 2010 by way of a reverse take-over.

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# Highlights

targeting

**100,000oz pa**

gold production at  
New Liberty, Liberia

**\$17.5 million**

raised in April 2010

**2 billion tonnes**

initial iron ore resource target  
with one billion tonnes to date  
from 22% of 13km Putu ridge

## During 2009

- > Maiden inferred mineral resource of 1.08 billion tonnes containing average of 38% of iron ore at the Company's Putu joint venture, Liberia.
- > 10,000m drill programme commenced at New Liberty gold project, Liberia.
- > 25 year renewable mining licence granted for New Liberty gold project.
- > Completion of acquisition of AAR, Share Consolidation and Name Change.

## To-date in 2010

- > Ground and Airborne Geophysical Survey of the Company's Cameroon iron ore and gold projects completed in April 2010.
- > Fundraising completed in April 2010, raising gross proceeds of \$17.5 million\* (£11.3 million).
- > Admission to AIM of Stellar Diamonds plc in February 2010 raising £5 million.

\* Unless otherwise stated all figures in this report are in US dollars



# Re-engineered for growth



In a changing world, it is our belief that only by being proactive can you keep ahead in these turbulent times.

We achieved this in 2009, emerging at the end of the year as a completely different company. The acquisition of African Aura Resources Limited, the share consolidation and name change, the successful listing of Stellar Diamonds in the new year, the successful fundraising and the success in the field have changed the face of our Company. The commitment of our iron ore joint venture partner, Severstal Resources, has also bolstered the Company.

With the merger came a new Board with a commitment to good corporate governance and a drive to continue our proactive approach to developing the business. The Company has effectively been split into two operating divisions, iron ore and gold with a push to bring both of our flagship projects, New Liberty Gold

Mine ("NLGM") and Putu iron ore project, in Liberia into production as quickly as possible. The target for New Liberty is to have an updated definitive feasibility study completed by quarter two, 2011 with production commencing in 2012. Putu, because of the sheer size of the project, will take longer to develop with first production by the end of 2016.

As I am writing this statement we have just closed a successful financing which was significantly oversubscribed, bringing approximately \$17.5 million (£11.3 million) of gross proceeds into the Company's treasury. These funds will be prioritised to take New Liberty forward to a definitive feasibility study, explore the exciting Nkout iron ore prospect in the Cameroon, deliver a NI 43-101 compliant resource for the Weaju gold deposit in Liberia and provide additional working capital.

Sustainable development, protection of the environment and corporate social responsibility are buzzwords for many, but for us they are core values. We are working closely with governments and local agencies to ensure that we can make a difference to the lives of the local communities where we are working. The President of Liberia, Her Excellency Madame Ellen Johnson Sirleaf, recently visited the Putu project in recognition of the work that has been conducted there not just in mining development but also in working with the local communities. In addition we provide tangible help to these communities by providing jobs, sourcing our supplies locally wherever possible, contributing to education and health initiatives, and by undertaking infrastructure projects such as road and bridge development.

On behalf of the Board of Directors, I would like to thank our shareholders for their loyal support during the year and welcome onboard the African Aura Resources shareholders. I would also like to thank our Directors, employees and other stakeholders for their hard work and accomplishments during 2009.

We believe that our current share price does not reflect the potential value of our gold and iron ore assets and this has been confirmed by independent valuations in recent months. The aim of the Board is to significantly increase shareholder value and we will continue to work proactively together towards this goal. All in all we can look forward to 2010 being a very exciting year.

**David Netherway**  
Chairman

“We emerged at the end of 2009 as a completely different company”



- 100% owned New Liberty gold project in Liberia
- 38.5% owned Putu iron ore project in Liberia
- 100% owned Nkout iron ore project in Cameroon
- 30.4% interest in AIM listed diamond producer Stellar Diamonds plc

# Developing compelling synergies



This past year proved challenging but demonstrated what the Company is able to achieve.

Significant changes were necessary and I am pleased to say delivered. From a corporate perspective the Company started the year as Mano River Resources Inc. and subsequently changed its name and nominated advisor and broker. This provided solid broker research on the prospects of the Company for the first time in several years. Within the finance function we moved towards reinforcing the systems to be able to manage the treasury more efficiently whilst forecasting robustly. In addition we migrated from the historical Vancouver based auditor to a London based, hands on reporting accountant with a solid natural resources team in the form of BDO LLP.

In the field, following the successful completion of the Severstal Resources deal in December 2008, the joint venture set about finding a managing director to

run the company. The position was quickly filled by Dr Nigel Kieser who was in place in February. Severstal effectively took immediate operational control of the newly named company Severstal Liberia Iron Ore Limited and strides were made on building a realistic programme for delivering a pre-feasibility study in 2012. Key to this was the negotiation with the Government of Liberia for reaching a mutually beneficial position by way of a Mineral Development Agreement setting out the fiscal terms for a period of 25 years. I am pleased to report that before the close of the year, the indicative terms were agreed and signed and as we go to press it now remains with the lawyers to conclude the legalities.

In the gold division, the ongoing desktop work continued to prepare the Company on the best possible methodology to advance New Liberty and the surrounding satellite deposits within the same licence area. At the end of July 2009 confirmation was received that the Government of Liberia had approved the Class 'A' mining

licence we were seeking. The licence area was reduced from the 1,000 square kilometres to a better defined production area of 457 square kilometres. This provides all the necessary permitting for a full scale operation. Consultants were then re-engaged to work on a 3-D model to assist the team on how best to tackle the next round of definition drilling. The 10,000m drilling programme commenced in late October 2009 with as many as three rigs at any one time. The programme is proving a success as the ore body is further defined with consistent grades at depth and more near surface ounces.

The diamond division under Stellar defied the expectations of a very tough market. The diamond team, however, focused on the near term production projects by reaching the milestone of production from 20 April 2009. A significant step and a true achievement as the Company proved for the first time it had what it takes to move from explorer, to developer and the all important production to achieve positive cashflow. This milestone has enabled Stellar to move towards becoming truly autonomous and standalone in an ever improving market place. The listing this year in February, by virtue of the reverse take-over of West African Diamonds, signalled Stellar's arrival on AIM as the Company now looks to integrate further assets such as Bomboko and develop the existing advanced exploration of the hard rock kimberlites to unlock further value.

The busy year culminated with the successful completion of the African Aura combination and a full integration of people, projects and systems. Now it is time to drive the enlarged vehicle towards the sorts of valuations our shareholders expect and demonstrate to the outside world the latent value in the Company. 2010 will demonstrate how the new African Aura Mining has emerged from the global financial crisis bigger, stronger and certainly demonstrating its regional presence in gold and iron ore.

**Luis Guilherme Cabrita da Silva**  
President and Chief Executive Officer

# An active senior management team



“The business combination of Mano River with African Aura Resources enhanced value on several levels”



## Iron Ore



Putu iron ore project: Extent of current resource drilling

### Liberia

#### Overview of the Putu Iron Ore Project

The Putu iron ore project is located in the centre of a 425 km<sup>2</sup> exploration licence in Grand Gedeh County of eastern Liberia, approximately 130km north-east from a potential deep water port in Sinoe County near the existing port of Greenville and approximately 200km south east of the Mt. Nimba iron ore deposit.

The key target at the Putu project is a prominent ridge, Mt Jideh, that strikes north-east southwest. Exploration completed to date at Mt Jideh has identified a sizeable outcropping magnetite itabirite mineralised zone that has undergone various degrees of weathering to create a hematite/goethite/limonite weathered cap. Mt Jideh has a strike length of approximately 12km based on mapping, surface sampling and airborne magnetic data.

The Putu project currently has a resource of 1.08 billion tonnes at 37.6% iron defined from 2.6km of the 13km strike of the project. It is moving towards the pre-feasibility stage, with an intensive 60,000m resource expansion drilling programme having just commenced in Q2 2010. A pre-feasibility study is expected to be completed during

2012 with a definitive feasibility study expected 18 months thereafter.

The primary objective of planned exploration activities is to generate an unweathered magnetite itabirite resource of at least 2 billion tonnes, which should be sufficient in scale to support a project and associated infrastructure capable of producing 20 million tonnes per year of magnetite concentrate. While the unweathered magnetite itabirite resource remains the primary exploration target, the joint venture will also evaluate the tonnage, grade and metallurgical characteristics of the overlying weathered hematite/goethite/limonite cap, which could potentially be exploited in the initial years of mining operations. This would provide early access to cash flow and revenue streams.

#### Infrastructure and Local Resources

The Putu project is geographically well located in that it will require the construction of a relatively short 130km railway line to the coast, over gently undulating terrain with no major topographic features to be overcome. A new deep water port would also need to be built. The technical and financial aspects of various possible port locations will be evaluated at the pre-feasibility study stage.

#### Severstal Joint Venture

Severstal Resources is a 4.7%\* shareholder in African Aura through its wholly owned subsidiary, Lybica Holdings B.V. Under a share purchase and subscription agreement signed on May 22, 2008 and subsequently completed on December 10, 2008, the Company reduced its 80% stake in the project to 38.5%. The deal provides for Severstal to invest \$30 million, \$15 million by way of a new subscription of shares into the joint venture company, now renamed Severstal Liberia Iron Ore Limited, and \$15 million through a loan facility. This combined investment of \$30 million will provide the necessary funding to advance the Putu project towards a pre-feasibility study. This loan facility shall be repaid solely from cash flows from the project.

#### Update on 2009 Exploration Activities

Activities at the Putu project during 2009 centred around gearing up the project for intensive exploration activities during 2010.

Substantial progress was made in the following areas:

- i) consolidation and enhancement of our technical understanding of the geology, which will allow intensive exploration activities planned for 2010 (predominantly resource delineation drilling) to be focused on the most prospective areas;
- ii) establishment of both the physical infrastructure and project team required to support more intensive exploration activities;
- iii) securing long-term mineral tenure for the project through the negotiation with the Government of Liberia of the key commercial terms of the Mineral Development Agreement ("MDA"); and
- iv) continued focus on social projects to maintain and enhance our social contract with the local communities.

\*Reduced to 3.56% after the private placement in April 2010.



Core inspection at the Putu Range Project



Her Excellency Madam Ellen Johnson Sirleaf, President of Liberia visiting Putu on 1 March 2010

Key technical achievements during 2009 were as follows:

- i) completion of further analytical testing on samples from 2008 drilling to assess the recoverability of a saleable magnetite concentrate product;
- ii) drilling to obtain sample material for more detailed metallurgical testing, which will allow a preliminary mineral processing flow-sheet to be developed; and
- iii) completion of a 7,500 line km airborne magnetic survey as well as a ground magnetic survey, have together enhanced our understanding of the prospect geology and will allow resource delineation drilling planned for 2010 to be optimised.

Construction of a new exploration camp at Petrokon (Tiamah) Town commenced in May 2009 and is expected to continue through to May 2010. This camp, when completed, will provide high quality accommodation for the project team as well as project contractors. The construction work has generated significant employment opportunities for the local communities, together with training in construction techniques. The process of establishing a network of access roads and pads for the 2010 resource delineation drilling programme commenced during quarter four 2009 and will continue as this drilling progresses over the course of 2010. The project team was augmented, with the appointment of a new CEO, Chief Geologist, Site Manager, and Community Relations Manager. A strengthened exploration team, dominated by Liberian geologists and mining engineers, was also recruited and will be further augmented during 2010.

Negotiations with the Government of Liberia in respect of the Mineral Development Agreement ("MDA") commenced in April 2009 and concluded in October 2009 with all material, commercial, fiscal and social contribution aspects having been agreed. Once finalised and in accordance with due process, the MDA will go forward for ratification by the Government of Liberia Executive, prior to final sign off by the

Legislature of Liberia. The MDA will provide 25 year mineral tenure and, therefore, a sound legal and commercial basis for more intensive investment in the Putu project.

## Cameroon

In February 2010, African Aura signed a contract with New Resolution Geophysics of South Africa to undertake a 14,000 line km airborne geophysical survey (electromagnetic and gravity) in Southern Cameroon. The survey covers the Company's three iron ore projects (as well as gold projects at Ntem and Batouri), with lines typically being flown at 100m spacing. The results from the survey were sent for analysis and interpretation in April 2010, a process which will take approximately six to eight weeks to complete, starting with priority targets such as Nkout.

### Nkout Iron Ore Project

The Nkout iron ore project is located on the 489 km<sup>2</sup> Djoum licence which is held by the Company's 100% owned subsidiary Caminex SARL. The project was identified through interpretation of historic airborne magnetic and remote sensing data. Mapping undertaken to date has shown that Nkout comprises a 12km long, iron rich Itabirite/banded iron formation ("BIF") discontinuous ridge hosted in Archaean age rocks in the Congo Craton. Reconnaissance sampling at Nkout has returned assays with grades of up to 68% iron and an average of 57% iron from 55 samples.

### Ngoa Iron Ore Project

The Ngoa iron ore project is located 2km south of Nkout on the adjacent 991 km<sup>2</sup> Essong licence which is held by the Company's 70% owned subsidiary Ridgeway Energy SARL. The project was identified through the interpretation of historic airborne magnetic and remote sensing data which shows an intense magnetic dipole coincident with a hill that rises to 300m above the regional landscape, with flanks that are strewn with a high proportion of enriched Itabirite/BIF float. Mapping undertaken to date has shown that Ngoa comprises a 2km long, iron rich hill – Itabirite/BIF hosted in

Archaean age rocks. Reconnaissance sampling at Ngoa has returned assays with grades of up to 69% iron and an average of 62% iron from 23 samples.

### Akon Iron Ore Project,

The Akon iron ore project is located 85km northwest of Nkout, next to the main Sangmelima – Djoum road, on the 489 km<sup>2</sup> Akonolinga licence which is held by the Company's 100% owned subsidiary Caminex SARL. The project was identified through the interpretation of historic airborne magnetic and remote sensing data which shows a cluster of airborne geophysical dipoles coincident with areas of higher ground, along a discontinuous strike length of approximately 20km. Mapping undertaken to date has shown that Akon comprises three separate BIF occurrences, Nkol Mendoua, Mezesse and Mekomo, each has a strike length of approximately 1-2km and are located within 4km of each other, with a combined strike length of approximately 4km. Reconnaissance sampling at Akon has returned assays with grades of up to 67% iron and an average of 57% iron from seven samples.

The sub-region of southern Cameroon, Gabon and the Republic of Congo hosts a number of substantial iron deposits, which are currently under exploration and development. These include the 2.5 Bt Mbalam deposit, located approximately 150km southeast of Nkout, which is being developed by Sundance Resources Limited. In the event that Mbalam is put into production and Nkout proves to be the iron ore target the Company currently expects, there could be compelling strategic and commercial reasons for regional iron ore plays to consolidate or form an infrastructure alliance. The general consensus for the region is that certain iron ore projects in the Republic of Congo and Gabon will have their route to port through the Cameroon.

## Gold

### New Liberty Gold Mine (NLGM), Liberia

The key asset in the Gold division is the 100% owned NLGM, a project situated some 90km north of the capital city Monrovia, where the Company has an NI 43-101 compliant gold resource estimate of 1.38 million contained ounces (13.533 million tonnes of measured and indicated resources grading 3.18 g/t gold). The drilling programme which was completed in Q2 2008 brought the total number of holes drilled at NLGM to 130, totalling 15,313m. These results confirm that there is potential to expand the current resource estimate through delineation of further resources at depth.

In September 2008, AMC Consultants (UK) Limited ("AMC"), undertook a conceptual mining study on the potential of NLGM for an underground mining operation. AMC concluded that although there appeared to be good potential for underground exploitation, additional infill drilling work is required to depths of up to 300m to define the underground resource potential.

AMC was then mandated in July 2009 to incorporate the positive drilling results received in 2008 from below 200m into a new geological model. This model has been used in developing the drill targets for the current drilling programme. The 2008 drilling (holes K115-K130) produced some of the best intersections achieved to date at the New Liberty gold deposit with two of the six holes drilled to the minus 200m level, K-115 and K-116 returning 23m grading 4.95 g/t gold (including 12m at 9.12g/t) and 31m grading 3.59 g/t gold (including 17m at 7.03 g/t) respectively.

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

In December 2009 the Company recruited a General Manager of Operations, with a mandate to accelerate the exploration programme at NLGM. Drilling started in October 2009 and encouraging drill results have been received from the first nine holes representing 3,558m of the planned 10,000m programme. Intersections include:

- > 4.17 g/t gold over 16m, from 142m depth
- > 4.94 g/t gold over 10m, from 379m depth
- > 4.42 g/t gold over 8m, from 447m depth

The Company considers the above results indicate the potential to expand the resource further, particularly the intersections of 4.94g/t over 10m in hole KGD136 from a depth of 379m and 4.42g/t over 8m in KGD133 at a depth of 447m, which have confirmed the continuity of the mineralised zone significantly deeper than the lower limit of the present resource estimate of 300m.

AMC will be preparing an updated resource statement once all the assay results have been received and will be undertaking a scoping study which will be

delivered in Q3 2010. A revised definitive feasibility study aiming for annual production of 100,000 ounces, is expected to commence in 2010. The expectation is for a mix between an open pit and an underground operation but AMC is mandated with delivering the most value added solution for the Company.

### Weaju gold project, Liberia

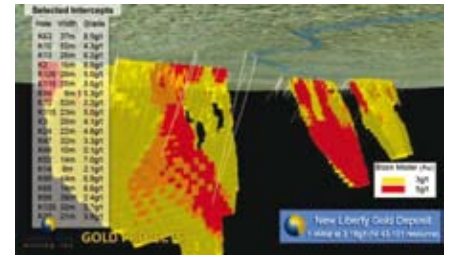
The other main gold asset in Liberia is Weaju which is situated 30km to the east north-east of NLGM and part of the same Bea Mountain MDA. Mineralisation is concentrated in shear zones, along a contact zone between granite and schist-belt lithologies, into which quartz-tourmaline veins and pegmatites have been intruded. A soil geochemical grid and geological mapping demonstrated a strike length of 1.5km in an east north-east trend for the mineralisation, open to the east and west. Artisanal workings have confirmed the continuity of mineralisation and previous drilling intersections have included 19.63 g/t gold over 6m from a depth of 18m and 27.72 g/t gold over 6m from a depth of 47m.

The planned 4,000m diamond drill programme to define a resource estimate is scheduled to commence in 2010.





New Liberty Gold Deposit:  
Conceptual open pit model



New Liberty Gold Deposit:  
Schematic section

### Other Projects, Liberia

Silver Hills has already produced encouraging results in the past and samples from a recent trenching programme are awaiting analysis. These results will be published as soon as they become available. At Gondoja, exploration is still at an early stage despite encouraging results from an earlier drilling programme. Artisanal miners are prevalent at Ndablama to the south west of Gondoja, where the locals are extracting gold from the top soil. Limited soil and channel sampling at Ndablama has yielded positive results with channel samples assaying grades of 1.47 and 2.91 g/ton over 3m respectively. North Bea is located approximately 45km east of NLGM. The main prospect is Fula Camp, which has been trenched and drilled and shows potential for a small resource (approximately 100,000oz gold) as indicated by drill results that include: 3.14 g/t over 12.45m, 5.37 g/t over 9.85m, 2.41 g/t over 21.35m and 4.27 g/t over 6.30m.

### Sonfon gold project, Sierra Leone

The Sonfon project is under joint venture with Golden Star Resources ("GSR") and Nyota Minerals Limited ("Nyota", formerly Dwyka Resources Limited). GSR has met its expenditure commitments under the agreement and therefore their beneficial interest in the project has increased to 51%.

Under the May 2002 agreement, the Company joint-ventured its interest in Sonfon with Nyota on a 50:50 basis. As a result the Company and Nyota each hold a 24.5% interest in the project. Under the agreement with GSR, the Company and Nyota have the right to elect to contribute pro-rata to a feasibility study to retain a 49% interest. If they elect not to contribute their interest will dilute to 35%. GSR may sole fund the feasibility study to earn a further 14% interest, thereby taking their interest to 65%. Upon completion of a positive feasibility study, GSR may elect to proceed to mine development. The Company and Nyota have the right to contribute pro rata to any mine

development to retain their interest or dilute to either a 15% or 29% free carried interest depending on their earlier elections to co-fund the feasibility study and mine construction. The Company and Nyota will also retain a 2% net smelter royalty on production in excess of the first 1 million ounces of gold from the project.

The project is currently under review by GSR and the Company. From discussions with GSR management, it would appear that further exploration work, including drilling, is required before a decision can be made on whether to undertake a feasibility study or not.

### Batouri, Cameroon

The Batouri gold project is situated in the Eastern Province of Cameroon on the border with the Central African Republic. The two main prospects are:

#### Kambele prospect

Drilling continued during 2009 to characterise mineralisation style of the Kambele prospect and generate data required for independent resource estimation. The recently completed drilling programme was designed to test zones of high soil geochemical anomalism associated with fractured granitoids. It comprised a series of step out drill holes at approximately 100m centres, necessary to infill portions of the high grade core zone at Kambele III.

A total of 92 holes have been drilled for 9,487m since work started on this prospect. Results indicate the presence of two north north-east dipping anomalies in which coarse visible gold is found in quartz stock works. Improved data density has provided previously unavailable continuity along strike.

Selected results returned recently include:

- > 4.99 g/t gold over 9.0m
- > 5.78 g/t gold over 9.0m
- > 8.86 g/t gold over 6.8m
- > 12.57 g/t gold over 4.0m
- > 43.30 g/t gold over 1.5m
- > 43.56 g/t gold over 2.0m
- > 65.90 g/t gold over 2.7m
- > 131.95 g/t gold over 1m

### Amndobi Prospect

The Amndobi prospect is situated on the Batouri license 8km northwest of Kambele. Mineralisation is defined by gold in soil anomaly delineated by a 35 parts per billion plus gold contour. The approximately 8km long anomaly is open ended to the north. Nine trenches have been completed to date across the prospect.

### Ntem, Cameroon

The Ntem prospect situated in southern Cameroon forms part of the northern portion of the Congo craton. Mineralisation appears to be associated with shear hosted quartz veining and Banded Iron Formation. Initial work yielded encouraging results. This was followed by a large soil sampling programme in the central portion of the license near Abiete. Analytical results indicate a 4km long east north-east trending gold in soil geochemical anomaly, defined by a 30ppb gold in soil contour. At least 2km of this zone exceeded 50ppb and in places 100ppb.

## Diamonds

### Corporate

Q4, 2009 was a quarter of significant restructuring and progress for African Aura's then 58.5% owned diamond focussed subsidiary Stellar Diamonds Limited. The Boards of Stellar Diamonds Limited and AIM listed West African Diamonds plc ("WAD") made the strategic decision to merge their business interests in an all-share transaction, by way of a reverse take over ("RTO") on a 75% Stellar 25% WAD ratio.

The enlarged company, which listed on London's AIM market on February 22, 2010 is called Stellar Diamonds plc, ("Stellar"). Subsequent to the RTO and the successful £5 million placement, African Aura's interest in Stellar is now 30.4%.

### Key activities

The Company has a portfolio of projects in West Africa. The main project is the Mandala alluvial diamond project in Guinea. As at March 15, 2010, Mandala has produced over 64,000 carats and with an expansion programme currently underway the level of production is expected to increase.

Stellar also has four high-grade hard rock kimberlite projects that are the focus of further development. In Sierra Leone, the Tongo and Kono projects comprise a series of kimberlite dykes, with the Kono project having produced 4,200 carats of diamonds through underground trial mining. In Guinea, the Droujba kimberlite pipe and the Bouro kimberlite dykes are located in proximity to the Mandala mine and demonstrate grades of up to 500 carats per hundred tonnes ("cph") and 200cph respectively.

### Mandala Diamond mine, Guinea

The Mandala alluvial diamond project is 100% owned by Stellar and comprises two alluvial mining concessions in the south east of Guinea.

As part of the RTO process, a new Competent Person's report was issued which independently assigned a diamond resource of 676,000 carats in the measured and indicated category, with a further 114,000 carats in the inferred category (SAMREC compliant).

During quarter four, 2009 some 11,826 carats of diamond were produced at an average grade of 0.68 carats per cubic metre (or 37.7cph). Total production for the year, since mining started in April 2009, reached 46,341 carats at a grade of 0.80 carats per cubic metre (44.4cph). The average grade achieved to-date is almost double that of the geological model, which is attributed to better mining and grade control and stricter security during the diamond recovery process.

During quarter four, 2009 29,312 carats of diamond were sold and sales totalled \$615,297 (average of \$20.99 per carat). This lower than average value is due to higher sales of industrial grade diamonds. Total sales for the year, since mining commenced, reached 41,874 carats amounting to \$1,179,004 (average of \$28.16 per carat).

### Kono Diamond project, Sierra Leone

On May 4, 2010, Stellar announced it had reached agreement with Petra Diamonds Limited ("Petra") to acquire Petra's interest in the Kono kimberlite project ("Kono Project") in Sierra Leone, the remaining interest in which is held by Stellar's wholly owned subsidiary, Stellar Diamonds Limited. The acquisition of Petra's interest in Kono is for an all share consideration of £900,000 and this consideration is to be settled by the issue to Petra of 4,500,000 Stellar ordinary shares at a price of 20 pence per share. Petra therefore becomes a 4.45% shareholder in Stellar and African Aura's interest is reduced to 30.4%. The Kono project was placed under care and





Bomboko diamonds



37 carat "fancy" yellow diamond recovered in Mandala



Pol-K diamonds

maintenance in May 2009 during the downturn in the rough diamond market, but Stellar believes the project has the potential to become a long-term mining operation.

### Tongo and Droujba Kimberlite Projects

Stellar is assessing the next exploration and development phases at its Tongo (Sierra Leone) and Droujba (Guinea) kimberlite diamond projects. These may include surface bulk sampling and drilling in order to define geological models and establish early-stage diamond grades and values. Previous mini-bulk sampling of Tongo yielded grades of approximately 100cph with high value diamonds (\$189 per carat; November 2008 Government of Sierra Leone valuation) and there are reported grades of up to 200cph for the Droujba kimberlite pipe.

### 2010 Operational Update

Production during the first two months of 2010 was 16,412 carats at an average grade of 0.69 carats per cubic metre (38.3 cph). A 37 carat 'fancy' yellow diamond was recovered during February 2010 and has been sent to Antwerp for valuation and sale.

Sales for the first two months of 2010 totalled 18,960 carats and realised \$579,553 (average \$30.57 per carat). These sales did not include the 37 carat 'fancy' that has been valued but not yet sold. The most recent sale of goods realised over \$42 per carat and is indicative of an improving rough diamond market.



# Financial & Risk Review

## 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").

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

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

## Consolidated statement of (loss)/income – attributable to the owners of the parent

### Review of the year ended December 31, 2009 compared to the year ended December 31, 2008.

The loss for the year ended December 31, 2009 at \$7,739,218 compares with an income for the corresponding period last year of \$1,841,014. The movement over last year can be attributed to a number of factors:

- (1) The dilution gain in the year is \$7.1 million down on last year. The gain in 2008 related to the dilution in the Company's interest in Stellar of \$1.2 million and in SLIO of \$5.9 million. Following the adoption of section 1602 these dilution gains and losses are now recorded in other comprehensive income/(loss);
- (2) The gain on the disposal of shares in SLIO at \$3.1 million is \$4.7 million below last year. The gain arising in 2009 following the recognition of the deferred consideration on the transaction with Severstal. There are no further gains to record on this transaction which was completed in December 2008;
- (3) The unrealised foreign exchange loss on convertible debentures in the year amounted to \$205,309, versus a gain in 2008 of \$831,873. The unfavourable movement is due to a strengthening of the pound over 2008; and
- (4) A gross loss of \$1.5 million on the Mandala diamond operation since production started in quarter two.

The factors detailed above were partly off-set by lower expenses in the year which at \$13.8 million are \$4.3 million below 2008. The main movements in expenses were project impairment which at \$7.8 million (\$7 million relates to the Kono diamond project in Sierra Leone) is \$3.5 million below the 2008 level, while professional fees and stock-based compensation are \$0.5 million and \$0.7 million respectively below 2008 levels.

## Balance sheet, liquidity and capital resources

### Balance sheet at December 31, 2009

Total assets at \$59,467,811 are \$4.7 million up on last year. While current assets are down \$0.8 million – with the \$5.2 million reduction in cash mainly off-set by the recognition of the \$4.2 million receivable from Severstal in quarter four, 2009. The increase in property, plant and equipment ("PPE") of \$7.6 million includes \$1.3 million in additions of which \$0.9 million relates to the acquisition of AAR. A total of \$7.5 million was transferred from resource properties and deferred exploration following the commissioning of the Mandala diamond operation in quarter two, 2009. Resource properties increased by \$3.7 million with \$6.7 million in additions as a consequence of the AAR acquisition. This was partly off-set by the transfer of the Mandala acquisition costs of \$4.9 million to PPE. Deferred exploration costs were down \$4.9 million on 2008 figure principally due to the \$7 million impairment of the Kono diamond property. Exploration during the year amounted to \$5.2 million with \$3.2 million being spent on New Liberty Gold Mine and \$1.6 million on diamond properties, principally Mandala and Kono. Deferred exploration of \$2.6 million relating to Mandala was transferred to PPE in quarter two. Investment in associate (SLIO) reduced by \$1.1 million following the disposal of 5.83% as a result of recognising the deferred consideration. This reduction was partly off-set by the Company's share in the result of the associate amounting to \$0.2 million for 2009.

Current liabilities of \$6.8 million increased by \$4.6 million over 2008. Accounts payable and accrued liabilities accounted for \$1.1 million of the increase, of which \$0.7 million relates to drilling costs incurred at New Liberty Gold Mine. A further \$3.4 million of the increase arose on convertible debentures with \$3.0 million relating to debentures issued in 2007 and previously recorded as long term liabilities and \$0.4 million on new short term debentures issued during the year by Stellar.

The debt element of the Company's convertible debentures increased by \$1.7 million over last year of which

\$0.8 million relates to the fair value accretion, \$0.2 million to unrealised exchange losses on the debenture issued in pounds sterling in 2007 and \$0.7 million to the net proceeds of the new debentures issued by Stellar, during the year.

Shareholders' equity increased by \$1.7 million over 2008 with share capital increasing by \$12.7 million on the acquisition of AAR. The Company early adopted section 1582, *Business Combinations*, as a result the all share transaction was valued using the share price at the date of completion. As a consequence of the early adoption of section 1582 the non-controlling interest in Stellar is now recorded in shareholders' equity. The reduction in non-controlling interest, from \$9 million to \$5 million is mainly due to the Company's share of the 2009 loss in Stellar of \$4.6 million. The accumulated deficit increased by \$7.3 million after writing back the warrant reserve of \$0.5 million following the expiry of the Severstal warrants in November 2009, and recording the loss for the year.

#### **Cash Flow for the year ended December 31, 2009**

The cash outflow for the year amounted to \$5.2 million leaving cash at the end of the year of \$3.7 million. The majority of the outflow was spent on operating activities (\$3.6 million), including corporate overheads, the costs associated with operations at the Mandala diamond project. The outflow on investing activities of \$2 million included exploration expenditure of \$5.3 million which was partly off-set by the cash received on the acquisition of AAR of \$3.7 million. The inflow of funds on financing activities of \$0.5 million included proceeds from the issues of debentures by Stellar (\$0.9 million) less interest paid on debentures (\$0.3 million).

#### **Risk review**

The Company is subject to a number of risk factors due to the fundamental nature of the exploration business in which it is engaged, the countries in which it operates and not least adverse movements in commodity prices. The Company seeks to counter exploration risk as far as possible by selecting exploration areas on the basis

of their recognised geological potential to host high grade gold and iron ore deposits.

A full list of the risk factors facing the Company can be found in the December 31, 2009 Management's Discussion and Analysis which can be found on [www.sedar.com](http://www.sedar.com) and on the Company's website [www.african-aura.com](http://www.african-aura.com). The following risk factors should be given special consideration:

#### **(i) Exploration and production may not prove successful**

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

#### **(ii) Development of the Company's prospective projects will require granting of additional licences**

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

#### **(iii) African Aura operates in foreign jurisdictions**

African Aura's operations in Liberia, Sierra Leone, Cameroon and Guinea 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 African Aura's operations. Operations may be affected by government regulations with respect to,

but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, environmental legislation, land use, and land claims of local people.

#### **(iv) 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 UK pounds most of African Aura's exploration costs, are denominated in U.S. dollars. From time to time African Aura has engaged in currency hedging through vanilla forward contracts to offset the risk of exchange rate fluctuations.

#### **(v) Ability to raise external finance**

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

#### **(vi) Commodity Prices**

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

# Corporate Social Responsibility

## Introduction

As a socially responsible organisation, African Aura is committed to making a positive contribution to the communities and environments in which we operate. Our core objective is to actively engage the local communities by creating jobs, procuring supplies and services, training and empowering our workers and improving local facilities and infrastructure.

The investment in Putu is already yielding tangible benefits to the local Petrokon community which has grown in population. The Company has a policy of employing local community members to assist with our exploration activities. The project presently employs 130 people on a full and part time basis, with only seven expatriates. In addition to this, we also promote local procurement of camp materials and supplies so that the communities that we work in can benefit as much as possible from our presence in the area.

## Infrastructure

In Liberia, African Aura has embarked on a number of road and bridge rehabilitation initiatives. Our focus remains on improving the transport network, such that towns and villages near where we operate are connected to national routes for light vehicles thereby boosting trade and commerce.

The Legislative Caucus of Grand Capemount County along with some prominent citizens including elders and youths from Darblo Clan, Gola Konneh District in Western Liberia, made a passionate appeal to African Aura to open and rehabilitate the Dangaytee road. In November 2009, after holding discussions with the various stakeholders, a number of assessment missions were undertaken and a contractor was identified to undertake the rehabilitation programme which includes the replacement of 18 bridges.

A similar project has also been launched by African Aura for the rehabilitation of six major bridges along the New Liberty road, in Darblo Clan, Grand Cape Mount County. Five of these bridges have been completed and work on the sixth will commence shortly.

In Guinea, high transport charges leveled by local vehicle owners subjected local villages to inflated prices of food products. In order to alleviate these problems, the Company invested a significant amount to rehabilitate 30.5km of road running between Macenta and Vasseridou and a 24.5km stretch of road running through Kabakoro and Bouro.

## Contribution to Education and Training

In its drive to promote education and training amongst geologists and mining engineers, the Company granted scholarships to more than 31 students studying geology at the University of Liberia. In addition, assistance in the form of tuition payments was extended to several students and youth groups. The Company is also supporting the salary of a teacher at the New Liberty School in Liberia. Plans are also underway to construct a new school building in the New Liberty area.

African Aura geologist, Steven Dorbor successfully graduated on April 17, 2009 with an MSc in Exploration Geology from the prestigious Rhodes University, South Africa. He is now back with the Company applying his knowledge in his day to day work and training up his own team.

In order to contribute to the Liberian Ministry of Land, Mines and Energy's efforts to offer comprehensive geological information, the Company provides support for a gold laboratory, a Kimberlite and diamond processing laboratory as well as a GIS facility and its staff at the Liberian Geological Survey Institute. Good information is vital and these initiatives will serve the industry by helping to attract new companies to Liberia.

## Charities and Health

The Company is committed to safe water supply schemes and has embarked upon the construction of four hand pumps for approximately 1,600 people of the New Liberty community, in Darblo Clan, Gola Konneh District, in western Liberia. To date, two of the hand pumps have been completed and the remaining two will be installed shortly. The provisions of safe drinking water to these villages will decrease the incidence of infectious and parasitical diseases.



The rehabilitated Dangaytee Road

The Company was the leading donor amongst a consortium of exploration companies and private investors in Liberia during an appreciation program organized by Measuagoon. To date, African Aura has donated a total of \$60,000 towards this local charity. Measuagoon is the brainchild of the President, Her Excellency Madam Ellen Johnson Sirleaf, which helps local communities come together to revive community life.

In co-ordination with the Sierra Leone Department of Health, the Company has launched an HIV/AIDS community awareness campaign.

At the Putu project, a first aid post has been constructed and made available to treat local emergencies. Current community projects include rehabilitation of village water wells, the reconstruction of a local school and providing street lighting to Petrokon village. It is our belief that by doing this we can contribute to building productive, respectful and mutually beneficial partnerships in the communities in which we operate.



One of the bridges on the New Liberty road



ATS catering staff on Putu camp site

## Board of Directors



**David Netherway**  
*Chairman*

David is a mining engineer with over 30 years of experience in the mining industry. He is currently the Chief Executive Officer of Shield Mining Limited (SHX:ASX), an Australian listed company exploring for gold and base metals in Mauritania. From April 2002 until the completion of its takeover by Eldorado Gold Corporation in 2005, David served as the President and Chief Executive Officer of Afcan Mining Corporation, a company previously listed in Toronto and with a focus on China's gold mining. Mr. Netherway is a mine developer and operator who was involved in the construction and development of the Iduapriem, Siguiiri, Kiniero and Samira Hill gold mines in West Africa and has mining experience which includes Australia, Canada, India, Nepal, Oman and Malaysia. Prior to joining Afcan, David held senior management positions in a number of mining companies, including Golden Shamrock Mines, Ashanti Goldfields and Semafo Inc. David has a B.E. in Mining Engineering from the University of Melbourne in 1975. David is the Non-Executive Chairman of GMA Resources plc (GMA:AIM) and a non-executive Director of Altus Resource Capital Limited (ARCL:AIM).

**Luis Guilherme Cabrita da Silva**  
*President & CEO*

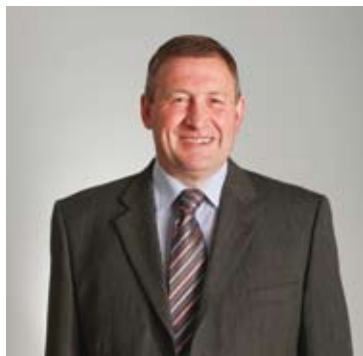
Luis was appointed President & Chief Executive in October 2007 having joined African Aura in February of the same year as Chief Financial Officer. He gained his extensive international experience primarily with the multinationals Lafarge S.A. and Blue Circle Industries plc. Luis' progressive experience started in an operational capacity, moving to technical and later senior corporate positions. Luis is a graduate Mining Engineer from Camborne School of Mines and read for his MBA at the Cranfield School of Management. He is a Non-Executive Director of Stellar Diamonds plc.



**Guy Pas**  
*Director*

Guy Pas is a Geneva based financier who has been involved with numerous successful resource ventures, through his investment vehicles Eastbound Resources Limited and AddVenture Capital Partners Limited. Having acquired expertise of structured and commodity finance during 1973-1983, he exited Chase Manhattan Bank as Vice President and joined a team of oil traders from 1984-1987. With them, in 1987, he co-founded The Addax & Oryx Group Limited an integrated African oil group which generated amongst others, Addax Petroleum (sold to Sinopec in June 2009 for \$7.2 billion) and Samax. Guy co-founded Samax Resources in 1989, which focused on gold mainly in Tanzania and as Samax Gold was acquired by AngloGold Ashanti Goldfields for C\$213 million in 1998. In 1995, he founded Mano River Resources Inc. which changed its name to African Aura Mining Inc. in October 2009. In 2004 he co-founded GAIA Resources Fund Limited, as well as Afren plc, a West African oil & gas company listed on the LSE. Outside Africa, Guy has been involved in establishing a number of FSU focussed ventures since the mid 1990s.





**David B. Evans**  
*Director*

Dave Evans joined the Company on October 1, 2007. Dave is a Mechanical Engineer who brings with him over 30 years of experience across the natural resources sector, with particular expertise in the development of precious and base metal projects for both large mining houses and emerging producers. Dave was previously a Director for AIM-listed Tianshan Goldfields Limited. He was the Managing Director of the successful JSE listed Kroondal Platinum Limited, a subsidiary of Aquarius Platinum Limited, for which he was also a director. He played an integral part in Aquarius's growth, financing and successful development.

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**Steven Poulton**  
*Director*

Steven holds an honours degree in geology from Southampton University and a masters degree in mining geology from the Camborne School of Mines. He is a co-founder and CEO of Altus Strategies Limited, a director of Altus Asset Management Limited, the investment manager of Altus Resource Capital Limited and a director of Asterion AV Limited. Steven previously worked for Mano River Resources Inc between 1998 and 2005. In 2002 he co-founded AIM listed Ariana Resources plc and was its Chief Executive Officer between 2004 and 2007. In 2004 he was the founder of African Aura Resources Limited which listed on the TSX-V in 2008 and was acquired by Mano River Resources Inc. in 2009 to form AIM and TSX-V listed African Aura Mining Inc where he is a director. He is also a director of AIM listed Stellar Diamonds plc, a 30.4% owned subsidiary of African Aura. Steven has a track record in the exploration sector at identifying opportunities, negotiating agreements, raising venture finance and building talented management teams. He is a fellow of the Geological Society of London, a fellow of the Institute of Materials, Minerals and Mining and a member of the Association of Mining Analysts.



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**Boris Granovsky**  
*Director*

Boris is the Head of Strategy and Corporate Development at Severstal Resources and is the representative for Severstal's strategic interest in African Aura. Boris is responsible for: defining the iron ore and coking coal strategy for Severstal Resources, origination and execution of M&A transactions, greenfield projects and partnerships. He is a member of the Severstal Resources' Executive Board and, a member of the Board of Directors for several portfolio companies and joint ventures. Prior to Severstal, Boris held various posts gaining management and financial consulting experience with A.T. Kearney and KPMG over a period of nine years.



## Corporate Governance Statement

The Board of Directors is accountable to the shareholders for the corporate governance of the Group. African Aura Mining Inc operates in an effective and efficient way, with integrity and with due regard for the interests of all stakeholders.

## Board of Directors

The Board of Directors is responsible for the conduct of the Company's affairs and the success of the Group. The main functions and responsibilities of the Board are detailed below:

1. Identifying and monitoring the principal risks facing the business and where-ever possible to mitigate the impact of these risks;
2. Stewardship for the financial affairs of the Company;
3. Ensuring effective communication with all stakeholders including shareholders, employees, the public and other interested parties; and
4. Approving the Company's strategy and objectives, operating plans, key transactions and budgets as presented by management.

The Board currently comprises six members: one executive director and five non-executive directors. Biographies of the Directors appear on pages 16 and 17. The Directors' varied backgrounds and relevant industry experience give African Aura a good mix of the knowledge and expertise necessary to manage the business effectively. The structure of the Board ensures that no one individual dominates the decision-making process. The

directors are detailed below together with information on appointments and retirements during the year.

The appointment of David Netherway and Steven Poulton to the Board were a result of the acquisition of African Aura Resources in October 2009. Boris Granovsky who joined the Board in October 2009 replaced Kirill Zimin who left the Board in June 2009. Boris Granovsky holds a senior position with Severstal Resources, our strategic partner on the Putu iron ore project. The Company is very confident that it has assembled a highly experienced and capable Board with the necessary skills to deliver strong growth, good governance, proactively exploit new opportunities and most importantly to create significant value for our shareholders.

The Board met face to face five times during the year and held a number of other meetings by telephone conference. The Board together with the Audit and Remuneration Committees deals with all important aspects of the Group's affairs. The Independent Chairman, David Netherway, is responsible for the leadership of the Board and to ensure effective communication exists between the executive and non-executive directors. Formal agendas and board papers are sent to the directors in a timely fashion prior to board meetings. At present the directors do not consider a nominations committee necessary with recommendations for appointments to the Board being made by the Board as a

whole after due evaluation and recommendation by the GHR committee.

The Board believes that its current composition is sufficient to ensure it can function independently of management. In the event of a conflict of interest, the conflicted director will in accordance with corporate law and his fiduciary obligations as a director, disclose the nature and extent of his interest to his fellow directors and abstain from voting on or against the resolution where he is conflicted. The non-executive directors apart from Boris Granovsky have interests in the ordinary shares of the Company and hold stock options. The following committees deal with the Group's affairs and provide experienced and objective advice to the Board.

## Audit Committee

The Audit Committee ensures the good operation of financial practices throughout the Group; ensures that controls are in place to protect the assets and to ensure the integrity of financial information; reviews the interim and annual financial statements; reviews all aspects of the audit programme and provision of non audit services by the auditors. The Audit Committee changed during the year following the retirement of Malcolm Burne. At the present time, the committee is chaired by Guy Pas and the other members are David Netherway and Steven Poulton. Messrs Poulton and Netherway are independent in that they have not held executive position with the Company in the last three years. Mr Pas is not independent

Directors	Title	Date appointed	Date retired	Committees
David Netherway	Independent Chairman	October 2, 2009	–	AC, GHR
Luis da Silva	President & CEO	February 27, 2007	–	–
Guy Pas	Non-executive director	September 16, 1998	–	AC, GHR
Steven Poulton	Non-executive director	October 13, 2009	–	AC
David Evans	Non-executive director(1)	October 1, 2007	–	GHR
Boris Granovsky	Non-executive director	October 14, 2009	–	–
Tom Elder	Non-executive director	June 23, 1999	June 25, 2009	–
Kirill Zimin	Non-executive director	May 13, 2009	October 14, 2009	–

(1) Chairman up to October 2, 2009

(2) GHR – Governance and HR committee

(3) AC – Audit Committee

in that he has held the positions of Executive Chairman and CFO in the last three years. Bevan Metcalf joined the Company on January 1, 2008 as CFO and although not a member of the Board or this committee he attends meetings along with Luis da Silva to ensure the committee is fully briefed on all financial issues affecting the Company. The external auditors shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its chair, may contact directly any employee in the Company as it deems necessary and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions. If issues arise which are deemed outside the areas of expertise of the committee then independent expert advice will be sought.

#### **Governance and HR Committee**

The Governance and HR Committee meets as and when required and is chaired by David Netherway. The other members of the committee are Guy Pas and David Evans.

The main duties of the Committee are:

- > To develop the Company's approach to corporate governance issues
- > To propose new candidates for directorship
- > To evaluate the efficiency of the board and its committees
- > To set the salaries and other benefits granted to the executive directors
- > To set the fees for the non-executive directors
- > To consider and make recommendations in respect of the terms of the service contracts of the executive directors and any proposed changes to those contracts
- > To oversee the operation of the Company's stock option scheme
- > To assist the Board in fulfilling its responsibilities with respect to hiring, evaluation, compensation and succession planning for senior management and other employees

Being composed of non-executive directors who have no personal interest in the outcome of its decisions, the committee provides some reassurance to the shareholders that the remuneration of the executive directors is fair but not excessive. Financial packages for executive directors are established by reference to those prevailing in the market place for directors of similar status, skills and qualifications and should be sufficient to attract, retain and motivate directors of the quality required to run the business successfully.

#### **Internal Controls**

The directors are responsible for establishing and maintaining the Group's internal controls and for reviewing their effectiveness. Financial, operational and compliance procedures are designed to safeguard the Group's assets and are regularly reviewed by the Board. The internal control system is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. It can only provide reasonable and not absolute assurance against material misstatement or loss. The directors are satisfied that the existing controls are adequate and effective with regard to the size of the Group and the stage of its development.

#### **Communication with Shareholders**

The Board recognises that it is accountable to shareholders for the performance and activities of the Group. The Board attaches great importance to maintaining good relations with its shareholders and promotes direct communication wherever possible. Market sensitive information is released to all shareholders concurrently in line with stock exchange rules. The Company is listed on the Toronto (TSX-V; Ticker: AUR) and London AIM (Ticker: AAAM) stock exchanges. Additional information about the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

At the Annual General Meeting of the Company to be held in London on June 22, 2010, the directors will present to the shareholders a report on the current and proposed operations and enable the shareholders to express their views and ask questions about the Group's business activities.

The Annual Report is made available to shareholders in a timely manner and can be accessed via the Company's website or in hard copy version. African Aura exhibits at conventions such as Mines and Money in London, Indaba in South Africa, Livingstone in Zambia and PDAC in Canada and presents at investor forums in order to give shareholders the opportunity to review the Group's progress and to ask questions to the directors.

The annual report, news releases, presentations and other information on African Aura are available on the Group's website ([www.african-aura.com](http://www.african-aura.com)).

# Statement of directors' responsibilities and approval of the annual financial statements

## Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of African Aura Mining Inc. are the responsibility of management and have been approved by the Board of Directors of the Company. The consolidated financial statements include some amounts that are based on management's best estimate using reasonable judgment.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorised, assets safeguarded and proper records are maintained.

The Audit Committee of the Board of Directors has met with the Company's external auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by BDO LLP, Chartered Accountants, and their report follows.



LUIS G. CABRITA da SILVA, DIRECTOR



DAVID NETHERWAY, DIRECTOR

# Report of the independent auditors to the shareholders of African Aura Mining Inc.

## **Auditors' Report to the Shareholders of African Aura Mining Inc.**

We have audited the consolidated balance sheet of African Aura Mining Inc. as at December 31, 2009 and 2008 and the consolidated statement of (loss)/income and other comprehensive (loss)/income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether these consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**BDO LLP**

BDO LLP  
Chartered Accountants  
London, UK  
April 20, 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

# Consolidated balance sheet

as at December 31, 2009

(Stated in U.S. dollars)

	2009 \$	2008 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,695,796	8,877,906
Accounts receivable (Note 5)	4,414,215	207,044
Inventories (Note 6)	220,826	–
Due from joint venture partner (Note 7)	–	27,495
	<b>8,330,837</b>	9,112,445
<b>Non-current assets</b>		
Investment in associate (Note 8)	7,200,097	8,093,775
Property, plant and equipment (Note 9)	11,499,181	3,896,933
Resource properties (Note 10)	10,059,428	6,330,092
Deferred exploration costs (Note 10)	22,378,268	27,316,442
<b>Total assets</b>	<b>59,467,811</b>	54,749,687
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,288,447	1,148,659
Convertible debentures (Note 12)	3,399,762	–
Interest payable on convertible debentures (Note 12)	120,924	49,928
Embedded derivative (Note 12)	125,388	–
Due to related parties (Note 17)	169,711	149,660
Due to joint venture partner (Note 7)	709,753	824,243
	<b>6,813,985</b>	2,172,490
<b>Non-current liabilities</b>		
Convertible debentures (Note 12)	396,078	2,048,638
Asset retirement obligation (Note 13)	54,369	–
<b>Total liabilities</b>	<b>7,264,432</b>	4,221,128
<b>Shareholders' equity</b>		
Share capital (Notes 15a, 15b)	50,637,085	37,963,124
Contributed surplus (Notes 15c, 15d)	5,292,619	4,488,976
Warrant reserve (Note 15e)	2,808	548,000
Equity component of convertible debentures (Note 12)	2,637,802	2,637,802
Accumulated other comprehensive loss	(21,755)	(21,755)
Deficit	(11,386,831)	(4,098,885)
Non-controlling interest (Note 14)	5,041,651	9,011,297
<b>Total shareholders' equity</b>	<b>52,203,379</b>	50,528,559
<b>Total liabilities and shareholders' equity</b>	<b>59,467,811</b>	54,749,687


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

Nature of operations and continuation of business (Note 1)

Approved by the Board on April 20, 2010



LUIS G. CABRITA da SILVA, DIRECTOR



DAVID NETHERWAY, DIRECTOR

# Consolidated statements of (loss)/income and comprehensive (loss)/income

for the year ended December 31, 2009

(Stated in U.S. dollars)

	2009 \$	2008 \$
<b>Revenues</b>		
Net sales (Note 18)	1,179,004	–
<b>Operating expenses</b>		
Depreciation, depletion and amortization (Note 9)	741,362	–
Other operating expenses	1,972,313	–
<b>Gross loss</b>	<b>(1,534,671)</b>	–
<b>Expenses</b>		
Administrative and office expenses	1,349,718	1,044,292
Directors' fees	297,445	297,409
Foreign exchange loss	42,816	304,215
Management fees	462,580	658,314
Interest on convertible debentures (Note 12)	1,206,266	983,242
Professional fees	1,431,128	1,938,650
Stock-based compensation (Notes 15c, 15d)	722,489	1,455,625
Transfer agent and filing fees	108,790	79,229
Project impairment (Note 10)	7,756,846	11,250,591
Depreciation (Note 9)	413,250	44,289
	<b>(13,791,328)</b>	(18,055,856)
Dilution gain on shares issued by controlled company (Note 14)	–	7,157,964
Gain on disposal of Severstal Iron Ore Ltd ("SLIO") (Note 8)	3,076,366	7,762,899
Loss on disposal of equipment	(26,779)	–
Unrealised foreign exchange (loss)/gain on convertible debentures (Note 12)	(205,309)	831,873
Share in results of associate (Note 8)	196,623	–
Interest income (Note 18)	2,676	74,484
<b>Loss for the year</b>	<b>(12,282,422)</b>	(2,228,636)
<b>Other comprehensive income</b>		
Expired warrants (Note 15e)	548,000	–
<b>Total comprehensive loss</b>	<b>(11,734,422)</b>	(2,228,636)
<b>(Loss)/Income for the year</b>		
Attributable to:		
Owners of the parent	(7,739,218)	1,841,014
Non-controlling interest	(4,543,204)	(4,069,650)
	<b>(12,282,422)</b>	(2,228,636)
<b>Total comprehensive (loss)/income</b>		
Attributable to:		
Owners of the parent	(7,287,946)	1,841,014
Non-controlling interest	(4,446,476)	(4,069,650)
	<b>(11,734,422)</b>	(2,228,636)
Basic and diluted (loss)/income per share	<b>(0.182)</b>	0.048
Weighted average number of shares outstanding	<b>42,574,271</b>	38,708,593

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

# Consolidated statement of cash flow

## for the year ended December 31, 2009

(Stated in U.S. dollars)

	2009 \$	2008 \$
<b>Operating Activities</b>		
Loss for the year	<b>(12,282,422)</b>	(2,228,636)
Items not involving cash:		
Dilution gain on shares issued by controlled company	–	(7,157,964)
Gain on disposal of SLIO	<b>(3,076,366)</b>	(7,762,899)
Loss on disposal of equipment	<b>26,779</b>	–
Share in results of associate	<b>(196,623)</b>	–
Stock-based compensation	<b>722,489</b>	1,455,625
Interest income	<b>(2,676)</b>	(74,484)
Interest on convertible debentures	<b>1,206,266</b>	983,242
Unrealised foreign exchange loss/(gain) on convertible debentures	<b>205,309</b>	(831,873)
Unrealised foreign exchange loss/(gain)	<b>152,881</b>	(90,730)
Project impairment	<b>7,756,846</b>	11,250,591
Depreciation of property, plant and equipment	<b>1,154,612</b>	44,289
Changes in working capital:		
Accounts receivable	<b>65,017</b>	174,333
Inventories	<b>(220,826)</b>	–
Accounts payable and accrued liabilities	<b>839,567</b>	2,794,397
	<b>(3,649,147)</b>	(1,444,109)
<b>Investing Activities</b>		
Acquisition of subsidiary (Note 4)	<b>3,731,881</b>	–
Deferred exploration costs	<b>(5,305,617)</b>	(10,402,580)
Interest income	<b>2,676</b>	74,484
Net proceeds on sale of SLIO	–	8,333,333
Purchase of property, plant and equipment	<b>(386,337)</b>	(1,990,279)
	<b>(1,957,397)</b>	(3,985,042)
<b>Financing Activities</b>		
Issuance of share capital (net of costs)	<b>(17,187)</b>	3,915,010
Proceeds from issue of convertible debentures (Note 12)	<b>853,161</b>	–
Cash disposed of on consolidation of subsidiary	–	(585,768)
Proceeds from issue of shares of subsidiary	–	7,311,665
Interest paid on convertible debentures	<b>(321,150)</b>	(494,837)
Due to/(from) related parties	<b>20,051</b>	(24,707)
	<b>534,875</b>	10,121,363
Impact of foreign exchange on cash balance	<b>(110,441)</b>	85,507
<b>Net cash (outflow)/inflow</b>	<b>(5,182,110)</b>	4,777,719
<b>Cash, Beginning of the year</b>	<b>8,877,906</b>	4,100,187
<b>Cash, End of the year</b>	<b>3,695,796</b>	8,877,906

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

Significant non-cash transactions relating to the acquisition of a subsidiary and expiry of share purchase warrants are disclosed in notes 4 and 15e, respectively.

# Consolidated statement of shareholders' equity

for the year ended December 31, 2009

(Stated in U.S. dollars)

	Common shares		Contributed surplus	Warrant reserve	Equity component of convertible debentures	Deficit accumulated in the development stage	Accumulated other comprehensive deficit	Non-controlling interest	Total shareholders' equity
	Number	Amount							
<b>Balance at January 1, 2008</b>	37,226,376	34,596,114	3,181,412	–	2,637,802	(5,939,899)	(21,755)	7,147,317	41,600,991
Income/(loss) for the year and Total comprehensive income/(loss)	–	–	–	–	–	1,841,014	–	(4,069,650)	(2,228,636)
Shares issued on private placement	2,500,000	3,367,010	–	548,000	–	–	–	7,363,367	11,278,377
Stock-based compensation	–	–	1,455,625	–	–	–	–	–	1,455,625
Non-controlling interest in stock-based compensation	–	–	(148,061)	–	–	–	–	148,061	–
Dilution gain	–	–	–	–	–	–	–	(1,231,793)	(1,231,793)
Disposal of subsidiary	–	–	–	–	–	–	–	(346,005)	(346,005)
<b>Balance at December 31, 2008</b>	39,726,376	37,963,124	4,488,976	548,000	2,637,802	(4,098,885)	(21,755)	9,011,297	50,528,559
Loss for the year	–	–	–	–	–	(7,739,218)	–	(4,543,204)	(12,282,422)
Expired warrants (Note 15e)	–	–	–	(548,000)	–	548,000	–	–	–
Dilution loss	–	–	–	–	–	(96,728)	–	96,728	–
Total comprehensive loss	–	–	–	(548,000)	–	(7,287,946)	–	(4,446,476)	(12,282,422)
Issued on acquisition (Note 4)	13,158,080	12,691,148	524,518	2,808	–	–	–	–	13,218,474
Shares issued	–	–	–	–	–	–	–	321,213	321,213
Share issuance costs	–	(17,187)	–	–	–	–	–	–	(17,187)
Stock-based compensation	–	–	434,742	–	–	–	–	–	434,742
Non-controlling interest in stock-based compensation	–	–	(155,617)	–	–	–	–	155,617	–
<b>Balance at December 31, 2009</b>	<b>52,884,456</b>	<b>50,637,085</b>	<b>5,292,619</b>	<b>2,808</b>	<b>2,637,802</b>	<b>(11,386,831)</b>	<b>(21,755)</b>	<b>5,041,651</b>	<b>52,203,379</b>

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

# Notes to the consolidated financial statements

for the year ended December 31, 2009

(Stated in U.S. dollars)

## 1. Nature of operations

African Aura Mining Inc. ("African Aura" or "the Company") commenced operations on July 10, 1996 and is engaged in the acquisition, exploration and development of gold, iron ore and diamond properties. The Company changed its name from Mano River Resources Inc. on October 13, 2009, the day it completed its acquisition of African Aura Resources Limited as further discussed in Note 4.

Although the Mandala alluvial diamond project entered commercial production in April 2009, the Company is still predominantly in the development stage. Apart from the cash generated from Mandala during the year, the Company has no other source of cash flows other than loans from related parties, convertible debentures or equity offerings and anticipates further operating losses as exploration continues across its property portfolio. As discussed in Note 21, the Company's share in Stellar Diamonds Limited, which operates and owns 100% of the Mandala project, has been diluted to 31.8% subsequent to year end.

## 2. Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada.

The Company has prepared these consolidated financial statements on a going concern basis which assumes that the Company will be able to realise assets and discharge liabilities in the normal course of business. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional finance in the future. If the Company cannot obtain additional finance in the future it may be forced to realise its assets at amounts significantly lower than the current carrying value. At December 31, 2009 the Company had cash and cash equivalents of \$3.7 million in hand. However, in order to progress its key projects and to have sufficient funds to finance general overhead costs during 2010 the Company will need to raise additional funds. With this in mind a fund raising, through a private stock placement, has just been completed (subject to regulatory approvals and the admission of the stock to trading on AIM and TSX-V) and the Company is pleased to advise that it has raised approximately £11.3 million (\$17.5 million), principally to fund the New Liberty Gold Mine, Nkout and Weaju projects. No funds were raised for Putu Iron Ore project as arrangements are in place to finance Putu towards a pre-feasibility study.

Uncertainty also exists with respect to the recoverability of the carrying value of certain resource properties. The ability of the Company to realise its investment in resource properties is contingent upon resolution of the uncertainties and continuing confirmation of the Company's title to the resource properties.

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada and reflect the following significant accounting policies. The United States dollar has been identified as the Company's currency of measurement and is used for external reporting purposes.

## 3. Significant accounting policies

### (a) Principles of consolidation

These financial statements include the accounts of African Aura Mining Inc. and its subsidiaries. The principal subsidiaries are Mano Gold Investments Ltd. (formerly Mano River Resources Ltd.), Mano River Iron Ore Holdings Ltd. ("MARIOH") and Mano Diamonds Ltd. As discussed in Note 4, MANAAR limited, a wholly-owned subsidiary of the Company, acquired African Aura Resources Limited on October 13, 2009. Subsequently, African Aura Mining Inc. and MANAAR Limited were amalgamated under the laws of British Columbia. The group companies are set out below:

Company	Place of incorporation	Percentage ownership
Mano Gold Investments Limited (formerly Mano River Resources Limited) and its subsidiaries:	Tortola, British Virgin Islands	100.0%
Golden Limbo Rock Resources Limited and its subsidiary*:	Tortola, British Virgin Islands	100.0%
Golden Limbo Rock Resources SA*	Conakry, Guinea	100.0%
Golden Leo Resources Limited and its branch:	Tortola, British Virgin Islands	100.0%
Golden Leo Resources Limited (Sierra Leone Branch)	Freetown, Sierra Leone	100.0%
North West Minerals Ltd.*	Mahe, Republic of Seychelles	100.0%
Mano Gold (Liberia) Ltd. (formerly Lofa Goldiam, Inc.) and its subsidiary:	Tortola, British Virgin Islands	100.0%
Bea Mountain Mining Corporation	Monrovia, Liberia	100.0%
Mano Diamonds Limited and its subsidiaries:	Tortola, British Virgin Islands	100.0%
Friendship Diamonds Guinée S.A.	Conakry, Guinea	100.0%
Stellar Diamonds Limited and its subsidiaries:	Guernsey	58.4%
Diamants du Congo Oriental Ltd.*	Tortola, British Virgin Islands	100.0%
Western Mineral Resources Corporation Inc. and its subsidiary*:	Tortola, British Virgin Islands	100.0%
Western Mineral Resources Corp. (Liberia)*	Monrovia, Liberia	100.0%
Alpha Minerals Inc.*	Monrovia, Liberia	100.0%

### 3. Significant accounting policies continued

Company	Place of incorporation	Percentage ownership
Weasua Diamonds Ltd and its subsidiary*:	Mahe, Republic of Seychelles	50.0%
Kpo Resources Inc.	Monrovia, Liberia	100.0%
Mano Diamonds (Liberia) Inc.*	Monrovia, Liberia	100.0%
Basama Diamonds Ltd and its branch:	Mahe, Republic of Seychelles	49.0%
Basama Diamond Ltd Sierra Leone Branch	Freetown, Sierra Leone	100.0%
Sierra Diamonds Limited and its branch:	Tortola, British Virgin Islands	100.0%
Sierra Leone Diamonds Limited Sierra Leone Branch	Freetown, Sierra Leone	100.0%
Mano Diamonds Sierra Leone Ltd.*	Freetown, Sierra Leone	100.0%
Guinean Diamond Corporation Ltd. and its subsidiaries:	Mahe, Republic of Seychelles	100.0%
Mano River Diamants Guinee S.A.	Conakry, Guinea	100.0%
Resources Mandala Guinée S.A. R.L.	Conakry, Guinea	100.0%
East Sierra Diamonds Ltd and its branch*:	Mahe, Republic of Seychelles	100.0%
East Sierra Diamonds Ltd. Sierra Leone Branch*	Freetown, Sierra Leone	100.0%
Mano River Iron Ore Holdings Ltd. and its associate:	Mahe, Republic of Seychelles	100.0%
Severstal Liberia Iron Ore Ltd. and its subsidiary:	Tortola, British Virgin Islands	38.5%
Putu Iron Ore Mining Inc.	Monrovia, Liberia	38.5%
Mano River Resources Inc. (UK Branch)	United Kingdom	100.0%
Subsidiaries acquired as part of African Aura Resources Limited:		
African Aura Resources (LIB) Limited and its subsidiary:	Mahe, Republic of Seychelles	100.0%
African Aura Resources (Liberia) Limited	Liberia	100.0%
African Aura Resources (CAM) Limited and its subsidiaries:	Mahe, Republic of Seychelles	100.0%
African Aura Resources Cameroon SARL	Cameroon	100.0%
Cameroon SARL*	Cameroon	100.0%
Caminex SARL*	Cameroon	100.0%
Caminur SARL*	Cameroon	100.0%
Fermont Mining Ltd*	Cameroon	100.0%
African Aura Resources (CAR) Limited*	Mahe, Republic of Seychelles	100.0%
African Aura Resources Centrafrique SURL*	Central African Republic	100.0%
African Aura Resources (UK) Limited	United Kingdom	100.0%
African Aura Resources (ZIM) SARL*	Mahe, Republic of Seychelles	100.0%
Fermont Mining Ltd*	Mahe, Republic of Seychelles	100.0%
Ridgeway Energy Limited and its subsidiary:	Mahe, Republic of Seychelles	70.0%
Ridgeway Energy Cameroon SARL	Cameroon	100.0%

\* Dormant companies

Business acquisitions are accounted for under the purchase method and the results of the operations of these businesses are included in these consolidated financial statements from the acquisition date until the date of disposal or loss of control.

Severstal Liberia Iron Ore Ltd. (SLIO) previously African Iron Ore Group Ltd. was 80% owned by MARIOH until the completion of the transaction with Severstal in December 2008. MARIOH reduced its holding in SLIO to 44.3% on December 2008 and subsequently to 38.5% on December 2009 (see Note 8). SLIO is accounted for as an investment in associate in the balance sheet.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of (loss)/income. Cumulative post-acquisition movements are adjusted against the carrying amount of investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has unsecured obligations or made payments on behalf of the associate.

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Variable interest entities ("VIEs"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, *Consolidation of Variable Interest Entities* ("AcG 15"), are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. As at December 31, 2009 the Company does not hold an interest in any VIEs.

All intercompany balances and transactions have been eliminated upon consolidation.

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 3. Significant accounting policies continued

#### (b) Business combinations

The acquisition of subsidiaries is accounted for under the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under Section 1582, *Business Combinations*, are recognised at their fair value at the acquisition date.

#### (c) Non-controlling interests

Non-controlling interests exist in less than wholly-owned subsidiaries of the Company and represent the outside interest's share of the carrying values of the subsidiaries. When the subsidiary company issues its own shares to outside interests, a dilution gain or loss arises as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying equity. Following the adoption of Section 1602, *Non-Controlling Interests*, as set out in Note 3(r) dilution gains or losses are treated as a capital transaction and recognised directly in equity. Dilution gain or loss arising in earlier years was recognised in the consolidated statement of loss.

#### (d) Cash

Cash and cash equivalents include cash, and those short-term money market instruments that are readily convertible to cash with an original term of less than 90 days.

#### (e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of production includes an appropriate portion of production overheads. Net realisable value represents the estimated selling price in the ordinary course of business less marketing costs.

#### (f) Property, plant and equipment

Property, plant and equipment is comprised of office furniture, automobiles and various equipment used in the field, that are initially recorded at cost and depreciated at 30% per annum on a declining balance basis. Property, plant and equipment in the course of construction are not depreciated until it is commissioned and available for use, at which point assets in the course of construction are re-categorised as mining assets.

Mining assets are depreciated using a units of production method based on the quantity of minerals produced over the economically recoverable reserves.

#### (g) Resource properties and deferred exploration costs

The Company follows the method of accounting for its mineral properties whereby all costs related to acquisition, exploration and development are capitalised by property. The carrying value of pre-production and exploration properties is reviewed periodically and either written off when it is determined that the expenditures will not result in the discovery of economically recoverable mineral reserves or transferred to producing mining property, plant and equipment when commercial development commences and amortised on a unit of production basis over the life of the related ore reserves.

The recoverability of amounts shown for pre-production and exploration properties is dependent upon the discovery of economically recoverable mineral reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to finance the development of the properties and on the future profitable production or proceeds from the disposition thereof. Management reviews these factors and considers whether any other events or circumstances indicate that the carrying amount of an asset may not be recoverable. If there is an indication that the carrying amount may not be recoverable future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted estimated future cash flow is less than the carrying amount of the asset, impairment is recognised and charged to the consolidated statement of (loss)/income.

The success and ultimate recovery of the Company's exploration costs of its mineral exploration properties is influenced by significant financial risks, legal and political risks, commodity prices, and the ability of the Company to discover economically recoverable mineral reserves and to bring such reserves into future profitable production.

#### (h) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant balances and transactions affected by management estimates include the valuation of the consideration paid to acquire African Aura Resources Limited and of the assets and liabilities acquired, the carrying value of the Company's investment in associate, resource properties, deferred exploration costs, asset retirement obligations, future income tax, stock-based compensation, warrants as well as the recovery of assets, fair value of convertible debt and the allocation of proceeds between share capital and warrants. Actual results could differ from those estimates.

### **3. Significant accounting policies** continued

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

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

#### **(i) (Loss)/Income per share**

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

#### **(j) Foreign currency translation**

The functional currency of the Company and all subsidiaries is US Dollars with the exception of the Company's UK Branch, African Aura Resources Limited and African Aura Resources (UK) Limited which have a functional currency of Pounds Sterling and African Aura Resources Sarl and Ridgeway Energy Sarl which have functional currency of Communaute Financiere Africaine Franc.

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

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

#### **(k) Stock-based compensation**

The Company follows Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-Based Compensation*, which requires that all stock-based awards made to non-employees and employees be measured and recognised using a fair value based method. Accordingly, the fair value of options at the date of grant is accrued and charged to the consolidated statement of (loss)/income, with an offsetting credit to contributed surplus, over the vesting period.

#### **(l) Joint ventures**

The Company has entered into certain agreements with third parties to develop exploration projects that are commonly referred to as joint ventures but do not necessarily meet the requirements to apply joint venture accounting. Where this is the case the Company recognises its share of the expenditure on the project and any liabilities arising in respect of the project. Joint venture agreements that do meet the definition of a joint venture under Section 3055 are proportionally consolidated.

#### **(m) Income taxes**

The Company accounts for income taxes whereby future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realisable amount. Future income tax assets are not recognised to the extent the recoverability of such assets is not considered more likely than not.

#### **(n) Comprehensive income**

Section 1530, *Comprehensive Income*, is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net loss such as unrealised gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive income, components of other comprehensive income, and accumulated other comprehensive income are presented in the statements of comprehensive (loss)/income and the statements of shareholders' equity. Amounts previously recorded in "cumulative translation adjustment" have been reclassified to "accumulated other comprehensive income".

#### **(o) Asset retirement obligations**

The fair value of the liability of an asset retirement obligation is recorded when it is legally incurred and the corresponding increase to the mineral property is depreciated over the life of the mineral property. If material, the liability is adjusted over time to reflect an accretion element considered in the initial measurement at fair value and revisions to the timing or amount of original estimates and for draw-downs as asset retirement expenditures are incurred. As at December 31, 2009 the Company has recognised a retirement obligation on the Mandala mine of \$54,369.

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 3. Significant accounting policies continued

#### (p) Financial instruments

Section 3855, *Financial Instruments – Recognition and Measurement*, establishes standards for classification, recognition, measurement, presentation and disclosure of financial instruments (including derivatives) and non-financial derivatives in the financial statements. This standard requires the Company to classify all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables or other financial liabilities. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognised in consolidated statement of (loss)/income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost. Available-for-sale investments are measured at fair value with unrealised gains and losses recognised in other comprehensive income. The standard also permits the designation of any financial instrument as held-for-trading upon initial recognition.

The Company has implemented the following classification of its financial assets and financial liabilities:

- Cash and cash equivalents are classified as held-for-trading;
- Accounts receivables, due from joint venture partners are classified as “loans and receivables” and are measured at amortized cost using the effective interest rate method. At December 31, 2009 and 2008 the recorded amount approximates fair value;
- Accounts payable, due to related parties, due to joint venture partners, convertible debentures and related interest payable are classified as “other financial liabilities” and are measured at amortized cost using the effective interest rate method. At December 31, 2009 and 2008 the recorded amount approximates fair value.
- Embedded derivative related to the convertible loan of Stellar Diamonds Limited is measured at fair value with changes recognised in consolidated statement of (loss)/income and has been discussed in detail in Note 12.

Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability are included in the carrying amount of the financial asset or financial liability, and are amortized to income using the effective interest rate method.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument. The terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognised in the consolidated statement of (loss)/income.

#### (q) Revenue

Revenue relating to the sale of diamonds is measured at the fair value of the consideration received or receivable, net of value added tax, rebates and discounts. Consideration receivable is measured as the amount invoiced on the agreed sale of diamonds.

Sale of diamonds and other products are recognised when the significant risks and rewards of ownership have been transferred to the customer, can be measured reliably and receipts of future economic benefits are probable.

#### (r) Adoption of new accounting standards and accounting pronouncements

##### Accounting changes

- (i) In May 2007, the CICA issued Section 3031, *Inventories*, which superseded Handbook Section 3030 to converge Canadian standards with International Accounting Standards 2, *Inventories*. This standard requires: that inventories be measured at the lower of cost and net realizable value; that the allocation of overhead be based on normal capacity; the use of the specific cost method for inventories that are not normally interchangeable or goods and services produced for specific purposes; the use of a consistent cost formula for inventory of a similar nature and use; and the reversal of previous write-downs of inventory to net realizable value, when there is a subsequent increase in the value of inventories. Disclosure requirements include the Company's policies, carrying amounts, amounts recognized as an expense, write-downs and subsequent reversal of write-downs. This standard was effective on January 1, 2008 but has only been applied during 2009 when the Company started to incur costs in respect of inventories.
- (ii) In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets* which replaced Section 3062, *Goodwill and Other Intangible Assets*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets for profit-oriented enterprises. This standard was effective for the Company on January 1, 2009.
- (iii) In January 2009, the Emerging Issues Committee issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The Committee concluded that an entity's credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.
- (iv) In March 2009, the Emerging Issues Committee issued EIC-174, *Mining Exploration Costs*, which provides guidance on the capitalization of exploration costs related to mining properties and the impairment review of such capitalized exploration costs. This EIC was effective for the Company on January 1, 2009.

### 3. Significant accounting policies continued

- (v) In May 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures*, which requires additional disclosure of fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements (Level 1, Level 2 and Level 3 inputs as defined in the standard). The amendments are applicable for years ending after September 30, 2009.
- (vi) In August 2009, the CICA issued certain amendments to Section 3251, *Equity*. The amendments apply to entities that have adopted Section 1602, *Non-controlling interests*. The amendments require separate presentation on the statements of operations and comprehensive income of income attributable to owners of the Company and those attributable to non-controlling interests. The amendments also require that non-controlling interests be presented separately as a component of equity. As the Company has not adopted section 1602, which is not mandatory until the year beginning January 1, 2011, the amendments are not applicable to the Company in the interim and there is no impact to the financial statements for the year ended December 31, 2009.

The adoption of the above standards had no impact on the Company's financial statements, except for Section 3031, *Inventories*, as stated above.

### Early adoption of accounting standards

- (i) The Company elected to adopt Section 1582, *Business Combinations* in advance of its effective date of January 1, 2011. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. The adoption of Section 1582 required the additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. It also required that shares issued as consideration be measured based on the fair value at the date of acquisition and that acquisition related costs paid to third parties are excluded from the capitalized cost of acquisition, and charged to the consolidated statement of (loss)/income.
- (ii) Additionally, as part of the application of Section 1582, the Company also adopted Section 1601 *Consolidated Financial Statements* and Section 1602 *Non-controlling interests*. The adoption of these sections resulted in the presentation of non-controlling interest as part of shareholders' equity on the balance sheet and the recognition of dilution gains and losses as capital transactions recognised directly in equity.

### Recent pronouncements

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

### 4. Acquisition of African Aura Resources Limited ("AAR")

On October 13, 2009, MANAAR Limited, a wholly-owned subsidiary of the Company completed its merger with AAR under the corporate laws of the British Virgin Islands effectively acquiring 100% of the issued share capital of AAR for a consideration comprising the issue of 1.57 common shares of the Company for each share in AAR. The total number of shares issued was 105,264,638 at a fair value of 7.625 pence sterling per share, the total fair value of the shares issued is therefore \$12,691,148. In addition, the options and warrants outstanding over the shares of AAR were replaced with options and warrants over shares of the Company. This resulted in the issue of 794,806 share options and 1,500,788 warrants, the fair values of which are presented in the table below. The fair value of shares issued as part of consideration paid was determined on the Company's share price in AIM on the acquisition date.

Acquisition-related costs included in professional fees in the consolidated statement of (loss)/income amounted to \$755,894.

The acquisition was accounted for in accordance with Section 1582, *Business Combinations*, which was early adopted during the year.

Subsequently, the Company consolidated its enlarged issued share capital on a 1 new share for 8 existing shares basis and changed its name from Mano River Resources Inc. to African Aura Mining Inc.

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 4. Acquisition of African Aura Resources Limited ("AAR") continued

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

	Fair value \$
<b>Current assets</b>	
Cash and cash equivalents	3,731,881
Accounts receivable	105,521
	<b>3,837,402</b>
<b>Non-current assets</b>	
Property, plant and equipment (Note 9)	882,331
Resource properties and Deferred exploration costs (Note 10)	8,832,428
	<b>9,714,759</b>
<b>Total assets acquired</b>	<b>13,552,161</b>
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	333,687
<b>Total liabilities assumed</b>	<b>333,687</b>
<b>Net assets acquired</b>	<b>13,218,474</b>
<b>Satisfied by:</b>	
Shares issued (Note 15b)	12,691,148
Options issued (Note 15c)	524,518
Warrants issued (Note 15e)	2,808
	<b>13,218,474</b>

The net cash inflow arising on the acquisition amounted to \$3,731,881 relating to the cash acquired.

The results of AAR are included within the consolidated statement of (loss)/income from the date of acquisition. AAR contributed \$47,131 to the Company's net loss for the period between the date of acquisition and the balance sheet date. It is impracticable to account for the profit and loss of the combined entity as though the acquisition date had been at the beginning of the year as AAR prepared its financial statements in accordance with IFRS.

The directors of the Company recognise the value that can be created for the shareholders by capitalising on the multiple corporate, operational and project synergies which exist between the two companies, as well as diversifying project and geographic risks.

### 5. Accounts receivable

	2009 \$	2008 \$
Receivable from Severstal (Note 8)	<b>4,166,667</b>	–
Other receivables	<b>247,548</b>	207,044
	<b>4,414,215</b>	207,044

### 6. Inventories

	2009 \$	2008 \$
Diamonds	<b>195,072</b>	–
Fuel	<b>25,754</b>	–
	<b>220,826</b>	–

Fuel inventories are carried at cost. Diamonds are carried at net realisable value.

The movement in inventories for the year resulted in a credit of \$220,826 to the consolidated statement of (loss)/income.

## 7. Due to/from joint venture partners

The amount owing to Petra Diamonds Limited, in respect of the Kono joint venture diamond project in Sierra Leone, is \$709,753, inclusive of \$20,065 accrued interest as at December 31, 2009 (2008: \$717,640). During the year, accrued interest of \$24,358 was paid and accrued interest of \$26,406 was written off by Petra Diamonds Limited. The outstanding loan balance accrues interest at a rate of interest based on six month \$ LIBOR rate plus 5%. During the year ended December 31, 2009, the Company incurred total interest expenses of \$42,877 (2008: \$36,558) in relation to this loan. The outstanding balance was paid on February 25, 2010.

The amount owing to Kpo Resources Inc., the joint venture entity of a diamond project in Liberia, is \$nil as at December 31, 2009 (2008: \$106,603).

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

## 8. Investment in associate

During the year ended December 31, 2008, African Aura entered into an agreement (The SPSA) with OAO Severstal Resources. The SPSA provided for the acquisition by an indirect wholly-owned subsidiary of Severstal of 25% of the issued and outstanding shares of Severstal Liberia Iron Ore ("SLIO") for \$12.5 million from MARIOH and of a further 20% of the issued and outstanding shares of SLIO from the minority interest parties in SLIO, for \$10.0 million. It also provided for the subscription by Severstal for new ordinary shares in SLIO for an aggregate price of \$15.0 million. These acquisitions and the subscription give the indirectly wholly-owned Severstal subsidiary a 61.5% stake in SLIO on completion of the SPSA.

During the year ended December 31, 2008 Severstal completed the acquisition of a total 16.67% of the SLIO shares from MARIOH and 13.33% of the shares from the minority interests as well as the \$15 million subscription for an additional 30% of SLIO. The consideration in respect of the acquisition of the remaining third of the shares to be acquired, amounting to \$4.2 million due to the Company payable at the discretion of Severstal. As a result the Company's shareholding in SLIO had reduced to 44.33%, as at December 31, 2008.

During the year ended December 31, 2009, the Company recognized a receivable in respect of the consideration of \$4.2 million related and pursuant to the SPSA and disposal of 5.83% of the Company's shareholding in SLIO.

The amount of \$4.2 million is payable on or before December 2010 and has been confirmed as payable by Severstal. At December 31, 2009 the Company therefore holds 38.5% (2008: 44.33%) of the issued share capital of SLIO and accounts for its interest in SLIO as an investment in associate in the consolidated balance sheet. SLIO operates the Putu iron ore project in Liberia.

The gain on disposal of the 5.83% of SLIO recognised during the year and included in gain on sale of assets in the consolidated statement of (loss)/income is set out below.

	2009 \$
Consideration recognized	<b>4,166,667</b>
Disposal	<b>(1,090,301)</b>
Gain on disposal	<b>3,076,366</b>

The movement in the Company's investment in SLIO during the year is detailed below:

	2009 \$
Opening balance	<b>8,093,775</b>
Share in result of associate	<b>196,623</b>
Disposal	<b>(1,090,301)</b>
Closing balance	<b>7,200,097</b>

The Group's share in the result of the associate is recorded in the consolidated statement of (loss)/income.

## Equity value of investment

	2009 \$	2008 \$
Net assets in SLIO	<b>18,701,552</b>	18,257,984
Interest held in share capital	<b>38.50%</b>	44.33%
Equity value of investment in associate	<b>7,200,097</b>	8,093,775

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 9. Property, plant and equipment

	Mining assets \$	Assets under construction \$	Machinery and equipment \$	Total \$
<b>Cost</b>				
At January 1, 2009	–	3,793,388	501,149	4,294,537
Additions	–	50,271	336,066	386,337
Acquired on acquisition of AAR (Note 4)	–	–	882,331	882,331
Asset retirement cost (Note 13)	54,369	–	–	54,369
Transfer from resource properties and deferred exploration (Note 10)	7,503,042	–	–	7,503,042
Transfers	3,134,872	(3,843,659)	708,787	–
Disposals	–	–	(40,101)	(40,101)
<b>At December 31, 2009</b>	<b>10,692,283</b>	<b>–</b>	<b>2,388,232</b>	<b>13,080,515</b>
<b>Depreciation</b>				
At January 1, 2009	–	–	397,604	397,604
Charge for the year	741,362	–	413,250	1,154,612
Foreign exchange difference	–	–	42,440	42,440
Disposals	–	–	(13,322)	(13,322)
<b>At December 31, 2009</b>	<b>741,362</b>	<b>–</b>	<b>839,972</b>	<b>1,581,334</b>
<b>Net book value</b>				
At December 31, 2008	–	3,793,388	103,545	3,896,933
<b>At December 31, 2009</b>	<b>9,950,921</b>	<b>–</b>	<b>1,548,260</b>	<b>11,499,181</b>

Assets under construction recognised as at December 31, 2008 are the plant and related equipment at Stellar's Mandala diamond operation in Guinea. These assets, as well as, resource properties and deferred exploration costs relating to Mandala (Note 10) have been transferred to mining assets in April 2009 to coincide with the commencement of production.

### 10. Resource properties and deferred exploration costs

	January 1, 2009 \$	Acquisition (Note 4) \$	Transfer to mining assets (Note 9) \$	Impairment \$	December 31, 2009 \$
<b>Resource properties:</b>					
<b>Liberia</b>					
Bea	210,000	–	–	–	<b>210,000</b>
North Bea	–	2,457,767	–	–	<b>2,457,767</b>
	210,000	2,457,767	–	–	<b>2,667,767</b>
<b>Cameroon</b>					
Batouri	–	4,091,266	–	–	<b>4,091,266</b>
Djourn	–	1,159,105	–	–	<b>1,159,105</b>
Ntem	–	629,073	–	–	<b>629,073</b>
Akonolinga	–	480,920	–	–	<b>480,920</b>
Ekomedion/Mbanga	–	14,297	–	–	<b>14,297</b>
	–	6,374,661	–	–	<b>6,374,661</b>
<b>Sierra Leone</b>					
Sonfon	1,017,000	–	–	–	<b>1,017,000</b>
Nimini	169,500	–	–	(169,500)	<b>–</b>
	1,186,500	–	–	(169,500)	<b>1,017,000</b>
<b>Guinea</b>					
Mandala	4,933,592	–	(4,933,592)	–	<b>–</b>
	6,330,092	8,832,428	(4,933,592)	(169,500)	<b>10,059,428</b>

## 10. Resource properties and deferred exploration costs continued

	January 1, 2009 \$	Additions (Note 4) \$	Transfer to mining assets (Note 9) \$	Impairment \$	December 31, 2009 \$
<b>Deferred exploration costs:</b>					
<b>Liberia</b>					
Bea	13,756,539	3,239,909	–	–	<b>16,996,448</b>
Weaju	742,268	15,330	–	–	<b>757,598</b>
Gondoja	34,348	–	–	–	<b>34,348</b>
MEA	60,545	–	–	(60,545)	<b>–</b>
North Bea	–	39,653	–	–	<b>39,653</b>
Silver Hills	–	3,009	–	–	<b>3,009</b>
MCA	–	15,969	–	(15,969)	<b>–</b>
Kpo	–	(85,428)	–	85,428	<b>–</b>
	14,593,700	3,228,442	–	8,914	<b>17,831,056</b>
<b>Cameroon</b>					
Batouri	–	330,158	–	–	<b>330,158</b>
Ntem	–	8,280	–	–	<b>8,280</b>
Akonolinga	–	906	–	–	<b>906</b>
Djourn	–	4,339	–	–	<b>4,339</b>
Ekomedion/Mbanga	–	24,322	–	–	<b>24,322</b>
	–	368,005	–	–	<b>368,005</b>
<b>Sierra Leone</b>					
Kono	7,979,870	939,324	–	(7,000,000)	<b>1,919,194</b>
Sonfon	1,190,080	12,013	–	–	<b>1,202,093</b>
Nimini	134,574	14,894	–	(149,468)	<b>–</b>
Tongo	682,836	19,524	–	–	<b>702,360</b>
	9,987,360	985,755	–	(7,149,468)	<b>3,823,647</b>
<b>Guinea</b>					
Bouro	180,995	–	–	–	<b>180,995</b>
Druzhba and ex De Beers	159,289	–	–	–	<b>159,289</b>
Ouria	5,532	9,744	–	–	<b>15,276</b>
Mandala	1,959,539	609,911	(2,569,450)	–	<b>–</b>
	2,305,355	619,655	(2,569,450)	–	<b>355,560</b>
<b>Democratic Republic of Congo</b>					
REMEC	430,027	16,765	–	(446,792)	<b>–</b>
	27,316,442	5,218,622	(2,569,450)	(7,587,346)	<b>22,378,268</b>

The Bea licence includes the New Liberty Gold Mine project and the Djourn licence includes the Nkout iron ore prospect.

# Notes to the consolidated financial statements continued

for the year ended December 31, 2009

(Stated in U.S. dollars)

## 10. Resource properties and deferred exploration costs continued

	2009 \$	2008 \$
<b>Deferred exploration costs</b>		
Feasibility	–	51
Assays incl. shipment	<b>18,997</b>	251,754
Communications incl. equipment	<b>34,420</b>	120,395
Community relations	<b>212,540</b>	151,103
Consultants and professional fees	<b>883,387</b>	1,393,596
Data, images, reports and maps	<b>9,511</b>	–
Drilling	<b>1,007,695</b>	1,886,828
Infrastructure incl. roads and bridges	<b>195,288</b>	86,475
Licenses and permit fees	<b>123,887</b>	186,981
Project/field office costs, incl. field equipment	<b>397,365</b>	435,764
Salaries and wages	<b>1,047,156</b>	2,450,656
Subsistence	<b>75,977</b>	168,490
Transportation incl. vehicles	<b>358,509</b>	438,089
Net Trans-Hex JV expenditure	<b>(85,428)</b>	91,658
Kono (Petra) joint venture	<b>939,318</b>	2,740,740
Net expenditure during the year	<b>5,218,622</b>	10,402,580
Recovery relating to the sale of mineral property on consolidation of Stellar	–	1,084,825
Expenditure removed on non consolidation of SLIO	–	(4,312,097)
Write off of project expenditure and impairment provision	<b>(7,587,346)</b>	(9,776,916)
Transfer Mandala to property, plant and equipment	<b>(2,569,450)</b>	–
Balance, Beginning of the year	<b>27,316,442</b>	29,918,050
<b>Balance, End of the year</b>	<b>22,378,268</b>	27,316,442

### Impairment

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that the carrying value of the assets may exceed the estimated net recoverable amounts. An asset's carrying value is written down when the carrying value is not recoverable and exceeds its fair value. Impairment reviews for deferred exploration and acquisition costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances apply:

- (i) title to the asset is compromised;
- (ii) variations in metal prices that render the project uneconomic; and
- (iii) unexpected geological occurrences that render the resource uneconomic.

Where estimates of future cash flows are not available and where other factors suggest impairment, management assesses if the carrying value is recoverable and records an impairment if so indicated. The impairment review undertaken during the year identified certain projects that were considered uneconomic and which were therefore written off and certain projects where there was a reasonable probability that the carrying value of the project exceeded its fair value for which an impairment was recognised. The total impairment charge recorded in the consolidated statement of (loss)/income during 2009 is \$7,756,846.

### Kono

Due to weak diamond prices in the rough diamond market, management made the decision during the year to suspend operations and place the Kono project under temporary care and maintenance until diamond prices recover. In line with the strategy to maintain Kono on care and maintenance, the Company assessed the recoverable amount of the exploration costs and resource properties relating to the asset and determined that it was impaired by \$7,000,000.

### REMEC

In April 2009 it was agreed with REMEC to terminate the joint venture as it was not seen as an economically viable diamond project. The costs related to this project of \$446,792 were written off during the year.

### Nimini

The licence to the Nimini project expired during the year and accordingly costs related to the project of \$318,968 were written off during the year.

## **10. Resource properties and deferred exploration costs** continued

### **MEA**

The MEA project was also deemed to be uneconomic and related costs of \$60,545 were written off during the year.

The write-offs in respect of these projects are included within the impairment charge shown in the consolidated statement of (loss)/income.

Some of the projects that remain and have not been impaired are early stage speculative mining projects, the carrying value of these is not supported by future estimated cash flows (with the exception of Bea) but management do not believe there to be any indication of impairment.

## **11. Joint ventures and Project agreements**

### **(a) Liberia, West Africa**

The Company holds a mineral development agreement ("MDA") licence in Liberia for gold development. This MDA is in Western Liberia and is held by Bea Mountain Mining Corporation, African Aura's local subsidiary. The MDA is valid for 25 years with an option to renew for a further 25 years and is dated November 28, 2001 and approved on March 14, 2002. The MDA allows the Company to conduct pre-feasibility and bankable feasibility studies. On July 29, 2009 the Company was granted by the Government of Liberia a Class A Mining Licence within the Bea MDA. The licence allows the Company to mine in a 457 km<sup>2</sup> area which encompasses the New Liberty Gold Project.

The Company acquired a Mineral Exploration Agreement ("MEA") licence on May 18, 2005, which is valid for five years over the Putu iron ore prospect in eastern Liberia. The licence rights were extended until September 2010. Negotiations to obtain an MDA are on-going with the Government of Liberia. Severstal acquired a majority interest in the Putu iron ore project in December 2008 as explained in Note 8.

The Company has a MEA licence at North Bea to mine for gold and associated minerals for an area of 200 km<sup>2</sup> in Western Liberia.

### **(b) Sierra Leone, West Africa**

The Company holds prospecting licences for diamonds and gold in Sierra Leone. The licences are located throughout the eastern and northern provinces of the country.

#### **(i) Petra Diamonds Joint Venture (Kono/Nimini)**

On September 10, 2004, the Company and Petra Diamonds Limited ("Petra") entered into a joint venture for the production of diamonds from the underground mining of diamond-bearing kimberlite dykes (the "Lion" dykes) defined within Africa Aura's three contiguous licence areas (Yengema, Njaiama and Nimini South) in the Kono diamond district of Sierra Leone.

Under the terms of the agreement Petra earned a 51% interest in Basama Diamonds Ltd by spending \$3 million over three years.

From January 1, 2009 Stellar elected to sole fund and operate the Kono project and planned to reinvest all diamond revenues in the continued development of the project. Petra did not opt to reimburse Stellar for its share in the costs incurred during 2009 and together with Stellar's payment of the amount due to Petra in February 2010 resulted to the dilution of Petra's interest in the joint venture to 45%. Stellar and Petra are currently in negotiations with respect to acquiring Petra's remaining interest in the Kono.

This project was put on care and maintenance in May 2009 due to poor diamond market conditions. Resumption of trial mining is expected once diamond conditions have improved sufficiently.

#### **(ii) Golden Star Joint Venture**

On November 24, 2003, the Company signed a comprehensive letter of agreement ("LoA") with Golden Star Resources Ltd. ("GSR"), which contains all the main terms of a joint venture covering licence packages in Sierra Leone.

GSR earned a beneficial interest of 51% in the gold rights of the licences currently held by African Aura through its subsidiary, Golden Leo Resources Limited after spending the minimum expenditure limits under the terms of the LoA.

Under the agreement African Aura has the right to elect to contribute pro-rata to the feasibility study (FS) to retain a 49% interest. If African Aura decides not to elect to contribute GSR may sole fund the FS to earn a further 14% interest, thereby taking its joint venture interest to 65%.

Upon completion of a positive FS on Sonfon, GSR may elect to proceed to mine development. African Aura has the right to contribute pro rata to any mine development to retain its 49% interest or dilute to either a 15% or 29% free carried interest depending on its earlier elections to co-fund the FS and mine construction. African Aura will also retain a 2% net smelter royalty on production in excess of the first 1 million ounces of gold from the project.

Under a separate agreement dated May 2002, the Sonfon licence was joint ventured by the Company to its partner Nyota Minerals Limited (previously Dwyka Resources) in a 50:50 joint venture basis. Nyota Minerals Limited retains a 50% interest in African Aura's share of the project.

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 11. Joint ventures and Project agreements continued

#### (c) Guinea, West Africa

The Mandala project is 100% owned by Stellar and comprises two alluvial mining concessions in the south east of Guinea. Mandala is now in production following the successful commissioning of the plant on April 20, 2009. The project comprises an independently verified measured and indicated resource of 676,000 carats of diamonds (NI 43-101 compliant).

#### (d) Cameroon

The following licences are held by the Company in Cameroon:

(i) The Batouri licence covers an area of 1,000 km<sup>2</sup> and targets gold in eastern Cameroon.

(ii) The Nkout iron ore prospect is located within the 998 km<sup>2</sup> Djoum licence and targets iron ore and gold in southern Cameroon.

(iii) The Akonolinga licence covers an area of 996 km<sup>2</sup> and targets gold and iron ore in southern Cameroon.

(iv) The Ntem licence covers an area of 987 km<sup>2</sup> and targets gold and iron ore in southern Cameroon.

(v) The Ekomedion and Mbangha licences are held by the Company's 70% owned subsidiary Ridgeway Energy Limited and covers an area of 992 km<sup>2</sup> and 1,000 km<sup>2</sup> respectively. These licences targets uranium and rare element in northern Cameroon.

#### (e) Democratic Republic of Congo

In April 2009 the Company agreed with REMEC to terminate its joint venture in DRC.

### 12. Convertible debentures

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

	2009 \$	2008 \$
Opening balance	<b>2,048,638</b>	2,260,738
Fair value accretion	<b>781,212</b>	619,773
Unrealised foreign currency exchange loss/(gain)	<b>205,309</b>	(831,873)
Net proceeds from issue of Stellar convertible loan notes	<b>727,773</b>	–
Fair value accretion on Stellar convertible loan notes	<b>32,908</b>	–
Closing balance	<b>3,795,840</b>	2,048,638
Included in current liabilities	<b>3,399,762</b>	–
Included in non-current liabilities	<b>396,078</b>	2,048,638
	<b>3,795,840</b>	2,048,638

#### (a) Convertible debentures issued by the Company

On September 27, 2007 the Company issued unsecured convertible debentures to raise £2.3 million (\$4.6 million). The convertible debentures are repayable on August 1, 2010 and bear interest at 9% per annum. The principal amount is convertible by the holders into common shares of the Company (2,053,571 shares) at a conversion price of £1.12 per share at any time prior to maturity. If prior to the maturity date, the daily volume weighted average trading price of the Company's common shares on AIM, or such other stock exchange where the majority of the Company's trading volume occurs, is greater than £1.456 per share (or equivalent), for any period of 21 consecutive trading days, the Company shall have the right at its sole option to provide notice to the holder and thereafter the debentures will be automatically converted to common shares.

As the debentures are convertible into common shares at the option of the holder, they have been accounted for in their component parts. The fair value of the conversion option was determined to be \$2,637,802 based on using the Black-Scholes option pricing model with the following assumptions: no dividends were paid, a weighted average volatility of the Company's share price in TSX-V of 172%, a weighted average annual risk free rate of 4.64% and an expected life of three years. The residual was allocated to the debt component and subsequently carried at amortised cost using the effective interest rate of 44.1% to accrete the liability to the value of the consideration received.

During the year ended December 31, 2009 the total interest expense charged to the consolidated statement of (loss)/income for the above convertible debentures is \$1,101,474 (2008: \$983,242) including the accretion of the loan to its future value. Interest has been paid up to November 1, 2009 and therefore an accrual of \$49,040 is included at December 31, 2009 (2008: \$49,928). Included in the consolidated statement of (loss)/income for the year ended December 31, 2009 is \$205,309 recognised as an unrealised foreign currency exchange rate loss (2008: gain of \$831,873).

## 12. Convertible debentures continued

### (b) Convertible debentures issued by Stellar

On May 1, 2009, the Stellar issued convertible debentures (secured on Mandala mining assets) and raised \$574,991, inclusive of \$200,000 contributed by African Aura which was eliminated on consolidation. The notes bear interest of 20% per annum. The principal amount is convertible by the holders into common shares of Stellar at a conversion price of £0.20 per share at any time prior to maturity. Subject to the lender converting their loan and interest for equity, a warrant will be issued for every share received at a conversion price of £0.25 per share and expiring on June 30, 2010. The convertible debentures and the related accrued interest were converted to Stellar shares in February 2010.

As the conversion option is denominated in foreign currency terms such that the option will not be settled by Stellar exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible debenture (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. The host contract's value on initial recognition is based on an effective interest rate of 30%; the residual value of the proceeds received is allocated to the embedded derivative.

The embedded derivative is separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date the embedded derivative is measured at fair value with changes in fair value recognised in the consolidated statement of (loss)/income as they arise. The embedded derivative is revalued at each reporting date using market based inputs. The embedded derivative (\$37,535) and host contract (\$337,456), net of the amount eliminated on consolidation and accrued interest) are presented under separate headings in the consolidated balance sheet.

The interest charged for the year is calculated by applying an effective interest rate of 30% to the liability component, to accrete the loan up to the full value of the consideration received.

On September 21, 2009, Stellar issued convertible debentures (secured on Mandala mining assets) and raised £300,000 (\$478,170). The notes are repayable on January 21, 2011 and bear interest of 16.5% per annum. The principal amount is convertible by the holders into common shares of Stellar at a conversion price of the lesser of the IPO price and £0.20 per share at any time prior to maturity. The holder will be issued one share purchase warrant for each ordinary share issued pursuant to the conversion which shall be exercisable at the lesser of £0.25 per share or a 25% premium to the IPO price per share expiring 24 months after IPO.

As the terms of the conversion option have an element of variability in the price at which the conversion may take place, the option will not be settled by Stellar exchanging a fixed number of its own equity instruments for a fixed amount of cash. Therefore, the convertible (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. The host contract's value on initial recognition is based on an effective interest rate of 31.4%; the residual value of the proceeds received is allocated to the embedded derivative.

The embedded derivative is separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date the embedded derivative is measured at fair value with changes in fair value recognised in the consolidated statement of (loss)/income as they arise. The embedded derivative is revalued at each reporting date using market based inputs. The embedded derivative (\$87,853) and host contract (\$390,317), net of the amount eliminated on consolidation and accrued interest) are presented under separate headings in the consolidated balance sheet.

The interest charged for the year is calculated by applying an effective interest rate of 31.4% to the liability component, to accrete the loan value up to the full value of the consideration received.

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

	2009 \$	2008 \$
Opening balance	—	—
Proceeds from issue of convertible loan notes	853,161	—
Fair value accretion	32,908	—
Closing balance	886,069	—
Presented in the consolidated balance sheet as:		
Current portion of convertible debentures	364,603	—
Non-current portion of convertible debentures	396,078	—
Embedded derivative	125,388	—
	886,069	—

During the year ended December 31, 2009, the interest expense charged for the above Stellar convertible loan notes was \$104,792 including the accretion of the loan to its future value. Accrued interest as at December 31, 2009 is \$71,884.

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 13. Asset retirement obligation

	2009 \$	2008 \$
Beginning of the year	-	-
Recognised during the year	<b>54,369</b>	-
End of the year	<b>54,369</b>	-

The provision for rehabilitation relates to the Mandala alluvial mine in Guinea.

### 14. Non-controlling interest

The non-controlling interest held in Stellar is:

	Company's ownership %	Non- controlling interest %	Carrying value of net equity \$	2009 \$	2008 \$
Stellar Diamonds Limited	58.34	41.66	11,909,706	<b>5,041,651</b>	9,011,297

During the year, Stellar issued 899,500 shares at a fair value of £0.20 per share in relation to services provided by third parties and shares issued to management, all of which were recognised as a share based payment in Stellar. Stellar also issued 167,330 shares at a price of £0.20 per share to acquire the remaining shareholding in a subsidiary. As a result, the Company recorded a dilution loss on its holding in Stellar of \$96,728 for the year ended December 31, 2009.

On March 31, 2008 Stellar issued 2,375,000 shares at a price of £1 per share for gross proceeds of £2,375,000 (\$4,724,571). On December 19, 2008, Stellar issued a further 15,567,675 shares at a price of £0.20 pence per share for gross proceeds of £3,113,535 (\$4,802,208). African Aura purchased 6,920,000 of these shares for £1,384,044 (\$2,134,701). At the same time Stellar settled debt of £622,356 (\$1,194,766) owing to African Aura through the issue of 3,111,781 shares at a price of £0.20 pence per share. As a result of these share issues, the Company recorded a dilution gain of \$1,231,793 in 2008.

The Company held 58.34% of the outstanding Stellar shares at December 31, 2009 (2008: 59.61%). As discussed in Note 21, the Company's interest in Stellar has been diluted further to 31.8% following the reverse takeover of West African Diamonds Limited and subsequent fund raising in February 2010.

Gains on shares issued by affiliated companies arise when the ownership interest of the Company in a controlled entity is diluted as a result of shares issuances of the investee company. The Company does not receive any cash proceeds in these transactions.

	2009 \$	2008 \$
Dilutive (loss)/gain on shares issued in Stellar	<b>(96,728)</b>	1,231,793
Dilutive gain on shares issued in SLIO	-	5,926,171
	<b>(96,728)</b>	7,157,964

As a result of the early adoption of Section 1602, *Non-Controlling Interests*, the dilution loss in 2009 is treated as a capital transaction and recognised directly in equity. Dilution gains or losses in prior years were recognised in the consolidated statement of (loss)/income.

## 15. Share capital

### (a) Authorised

Unlimited number of common shares without par value.

### (b) Issued

The number of shares has been restated to retroactively reflect the 1 for 8 share consolidation on October 13, 2009 as further discussed in Note 4.

	Shares	Amount \$
Balance at January 31, 2007	36,640,126	34,158,278
Shares issued on exercise of stock options	586,250	437,836
Balance at December 31, 2007	37,226,376	34,596,114
Shares issued on private placement (net of share issue costs) on May 29, 2008	2,500,000	3,367,010
Balance at December 31, 2008	39,726,376	37,963,124
Shares issued on acquisition of AAR (Note 4)	13,158,080	12,691,148
Share issue costs related to the acquisition of African Aura Resources Limited	-	(17,187)
<b>Balance at December 31, 2009</b>	<b>52,884,456</b>	<b>50,637,085</b>

The Company issued 105,264,638 shares (13,158,080 shares after retroactively restating for the 1 for 8 share consolidation) on the acquisition of African Aura Resources Limited as further discussed in Note 4.

The income per share for 2008 has been restated to reflect the share consolidation.

During the year, Stellar issued 1,066,830 shares at a price of £0.20 pence per share (Note 14).

### (c) Stock options in the Company

The number of options and their related weighted average exercise prices for both years have been restated to retroactively reflect the 1 for 8 share consolidation on October 13, 2009 as further discussed in Note 4. Details of the stock options outstanding and exercisable during the year are as follows:

	2009		2008	
	Number of options	Weighted average exercise price per share Cdn\$	Number of options	Weighted average exercise price per share Cdn\$
Beginning of the year	<b>2,255,000</b>	<b>1.68</b>	1,237,500	1.68
Options granted on acquisition of AAR (Note 4)	<b>794,806</b>	<b>1.30</b>	-	-
Other options granted	<b>650,000</b>	<b>0.80</b>	1,130,625	1.60
Options expired	<b>(340,000)</b>	<b>1.92</b>	(113,125)	0.80
End of the year	<b>3,359,806</b>	<b>1.42</b>	2,255,000	1.68

On October 13, 2009, the Company issued 794,806 options to the previous directors and employees of AAR on acquisition as further discussed in Note 4. The fair value of the stock options granted as part of the acquisition of AAR was determined to be \$524,518 based on using the Black-Scholes option pricing model with the following assumptions: no dividends were paid, a weighted average volatility of the Company's share price of 74.8%, a weighted average annual risk free rate of 3% and an expected life of three to six years.

The fair value of the other stock options granted during the year was determined to be \$59,400 based on using the Black-Scholes option pricing model with the following assumptions: no dividends were paid, a weighted average volatility of the Company's share price of 74.0%, a weighted average annual risk free rate of 3.5% and an expected life of five years.

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 15. Share capital continued

As at December 31, the following stock options were outstanding:

Expiry date	2009		2008	
	Exercise price per share Cdn\$	Number of stock options outstanding	Exercise price per share Cdn\$	Number of stock options outstanding
March 23, 2009	–	–	1.92	340,000
July 25, 2010	1.76	327,500	1.76	327,500
July 31, 2011	1.84	344,375	1.84	344,375
March 16, 2012	1.84	75,000	1.84	75,000
May 20, 2012	1.84	37,500	1.84	37,500
January 17, 2013	1.60	1,130,625	1.60	1,130,625
July 1, 2013	2.80	63,780	–	–
January 19, 2014	0.80	650,000	–	–
June 6, 2015	0.41	181,530	–	–
December 1, 2015	0.84	235,498	–	–
December 1, 2015	1.25	98,124	–	–
December 1, 2015	1.67	29,437	–	–
January 1, 2017	1.43	19,625	–	–
June 28, 2017	2.29	166,812	–	–
		<b>3,359,806</b>		<b>2,255,000</b>

### (d) Stock options in Stellar

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

	2009		2008	
	Number of options	Weighted average exercise price per share GBP£	Number of options	Weighted average exercise price per share GBP£
Beginning of the year	3,000,000	0.890	2,600,000	0.871
Activity during the year				
Options granted	1,000,000	0.225	400,000	1.000
Cancelled	(7,500)	0.871	–	–
Less options re-priced	(2,465,000)	0.892	–	–
Plus options re-priced	2,465,000	0.225	–	–
End of the year	<b>3,992,500</b>	<b>0.314</b>	3,000,000	0.890

The options granted during the year have resulted in a charge to the consolidated statement of (loss)/income of \$160,554 (2008: \$470,035) with the Black-Scholes option pricing model and the following assumptions: nil dividend yield (2008: nil), a weighted average expected volatility of the Company's share price of 64.5% (2008: 76%) based on the weighted average volatility from listed company peers, a weighted average annual risk free rate of 2.4% (2007: 2.4%) and an expected life of five years (2008: 5 years).

The options re-priced during the year have resulted in an additional charge to the consolidated statement of (loss)/income of \$214,788 with Black-Scholes option pricing model and the same assumptions to the options granted during the year.

As at December 31, 2009 the following stock options of Stellar were outstanding:

Expiry date	2009		2008	
	Exercise price per share £	Number of stock options outstanding	Exercise price per share £	Number of stock options outstanding
March 13, 2010	0.871	527,500	–	–
March 13, 2010	0.225	2,365,000	0.871	2,600,000
April 21, 2013	0.225	100,000	1.000	400,000
April 21, 2014	0.225	1,000,000	–	–
		<b>3,992,500</b>		<b>3,000,000</b>

## 15. Share capital continued

### (e) Share purchase warrants in the Company

On October 13, 2009, the Company issued 1,500,788 warrants to acquire common shares in the Company to the previous warrant holder of AAR on acquisition as further discussed in Note 4. The fair value of the warrants was determined to be \$2,808 based on the Black-Scholes option pricing model with the following assumptions: no dividends were paid, a weighted average volatility of the Company's share price of 74.8%, a weighted average annual risk free rate of 3% and an expected life of five and a half months.

On November 29, 2009, Severstal's 2,500,000 warrants (originally 20,000,000 before the 1 for 8 share consolidation) to purchase shares of the Company at an exercise price of £1.12 per share expired. These warrants were granted to Severstal as part of the private placement completed on May 29, 2008. On expiry the amount of \$548,000 recognised in the warrant reserve, in respect of these warrants, was transferred to other comprehensive income.

## 16. Income taxes

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

	2009 \$	2008 \$
Statutory tax rate	30.00%	31.00%
Expected income tax recovery	(3,684,756)	(690,877)
Foreign income taxes at other than Canadian statutory rate	582,144	2,321,838
Non-deductible stock based compensation	216,747	451,244
Non-deductible interest	244,236	304,805
Non-deductible loss/(Non-taxable gain) on convertible debt	61,589	(257,881)
Other non-deductible expenses	218,420	–
Non-taxable dilution gain on shares issued by subsidiary company	–	(2,218,969)
Non-taxable portion of gain on sale of assets	(630,000)	(1,203,249)
Increase in valuation allowance	2,412,755	1,293,089
Adjustments related to prior years' tax computations	578,865	–
	–	–

The approximate tax effect of each type of temporary difference that gives rise to the Company's future tax assets are as follows:

	2009 \$	2008 \$
Operating loss carry forwards	1,809,604	1,920,000
Property, plant and equipment, Resource properties and Deferred exploration costs	6,756,000	3,641,663
Non-remitted taxable gain	(1,794,435)	(1,203,249)
Less: Valuation allowance	(6,771,169)	(4,358,414)

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on the valuation allowance is reflected in current income. As management of the Company does not currently believe that it is more likely than not that the Company will receive the benefit of this asset, a valuation allowance equal to the future tax asset has been established at both December 31, 2009 and 2008.

At December 31, 2009, the Company had the following estimated loss carry forwards available for tax purposes:

	Amount \$	Expiry
Canada	6,032,000	2010-2029

The Company operates in foreign jurisdictions and is subject to audit by taxing authorities. These audits may result in the assessment of amounts different than the amounts recorded in the consolidated financial statements. The Company liaises with the relevant authorities in these jurisdictions in regard to its income tax and other returns. Management believes the Company has adequately provided for any taxes, penalties and interest that may fall due.

These consolidated financial statements do not reflect the potential effect on future income taxes of the application of these losses.

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 17. Related party transactions

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

	2009 \$	2008 \$
Incurring management service fees with a company related by a director in common	–	150,000
Incurring management fees by directors	<b>634,178</b>	774,805
Incurring directors fees	<b>408,095</b>	297,356
Incurring professional fees and consultancy services by a director	<b>107,640</b>	83,818
	<b>1,149,913</b>	1,305,979

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. No consultancy payments were made during the year.

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

	2009 \$	2008 \$
Directors' companies	<b>9,499</b>	–
Various directors	<b>160,213</b>	142,004
	<b>169,712</b>	142,004

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.

### 18. Segmented information

#### (a) Industry information

The Company operates in one reportable operating segment, being the acquisition and exploration and development of resource properties.

#### (b) Geographic information

The Company's revenues from operations were derived as follows:

	2009 \$	2008 \$
Net sales		
– Guinea	<b>1,179,004</b>	–
Interest income		
– United Kingdom	<b>2,676</b>	74,075
– Canada	–	409
	<b>1,181,680</b>	74,484

The Company's non-current assets by geographic location are as follows:

	2009 \$	2008 \$
Liberia	<b>27,732,692</b>	22,909,175
Guinea	<b>11,012,089</b>	11,089,990
Cameroon	<b>7,499,062</b>	–
Sierra Leone	<b>4,845,216</b>	11,179,235
United Kingdom	<b>47,915</b>	745
Democratic Republic of Congo	–	458,097
	<b>51,136,974</b>	45,637,242

Additional geographic information is provided in Note 10.

## 19. Financial instruments and financial risk management

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

The carrying amounts for the financial instruments are as follows:

	2009	2008
	\$	\$
<b>Financial assets:</b>		
<i>Held for trading</i>		
Cash	<b>3,695,796</b>	8,887,906
<i>Loans and receivables, measured at amortised cost</i>		
Accounts receivable	<b>4,414,215</b>	207,044
Due from joint venture partner	-	27,495
	<b>8,110,011</b>	9,122,445
<b>Financial liabilities:</b>		
<i>Other liabilities, measured at amortised cost</i>		
Accounts payable and accrued liabilities	<b>2,119,693</b>	1,148,659
Convertible debentures	<b>3,795,840</b>	2,048,638
Interest payable on convertible debentures	<b>120,924</b>	49,928
Due to joint venture partner	<b>709,753</b>	824,243
Due to related parties	<b>169,711</b>	149,660
	<b>6,915,921</b>	4,221,128
<i>Other liabilities, measured at fair value through profit and loss</i>		
Embedded derivative	<b>125,388</b>	-

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

### Foreign currency risk

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. 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 2009. In 2009, the Board decided to enter into currency forward contracts to hedge part of its exposure to the Pound Sterling. There are no outstanding currency forward contracts as of December 31, 2009.

	2009	2008
	\$	\$
Carrying value of foreign currency balances		
Cash and cash equivalents, include balances denominated in:		
Pound Sterling (GBP)	<b>156,338</b>	1,236,356
Canadian Dollar (CAD)	<b>1,700,828</b>	15,233
Communaute Financiere Africaine Francs (CFA)	<b>71,776</b>	-
Euros (EUR)	<b>25,041</b>	-
Others	<b>17,203</b>	-
Amounts receivable, include balances denominated in:		
Pound Sterling (GBP)	<b>139,878</b>	194,498
Canadian Dollar (CAD)	<b>19,615</b>	5,871
Communaute Financiere Africaine Franc (CFA)	<b>6,308</b>	-
Amounts payable and accrued liabilities, include balances denominated in:		
Pound Sterling (GBP)	<b>491,169</b>	498,147
Canadian Dollar (CAD)	<b>194,026</b>	54,277
Communaute Financiere Africaine Franc (CFA)	<b>101,046</b>	-
Euros (EUR)	-	15,752
Others	<b>22,654</b>	-
Due to related parties, include balances denominated in:		
Pound Sterling (GBP)	<b>169,711</b>	149,660
Convertible debentures, include balances denominated in:		
Pound Sterling (GBP)	<b>3,431,236</b>	2,048,638
Embedded derivative, include balances denominated in:		
Pound Sterling (GBP)	<b>87,853</b>	-

# Notes to the consolidated financial statements continued

## for the year ended December 31, 2009

(Stated in U.S. dollars)

### 19. Financial instruments and financial risk management continued

The sensitivities below are based on financial assets and liabilities held at December 31, 2009 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, 2009		
Pound Sterling (GBP)	0.6279	388,375
Canadian Dollar (CAD)	1.0491	152,642
Euro (EUR)	0.6977	2,504
Communaute Financiere Africaine Franc (CFA)	448.6280	2,296
At December 31, 2008		
Pound Sterling (GBP)	0.6910	126,559
Canadian Dollar (CAD)	1.2228	3,317
Euro (EUR)	0.7095	1,575

### 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 financial assets with a maturity of less than 30 days to ensure adequate liquidity and flexibility. The maturity of the debt instruments has been set out in Note 12 and is reflected in the table below.

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

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

	Within 30 days \$	30 days – 6 months \$	6 months – 1 year \$	1 year – 5 years \$
Cash and cash equivalents	3,695,796	–	–	–
Accounts receivable	65,730	106,280	4,242,205	–
Accounts payable and accrued liabilities	(2,119,693)	–	–	–
Due to related parties	(169,711)	–	–	–
Due to joint venture partner	–	(709,753)	–	–
Interest on convertible debentures	–	(99,080)	(21,844)	–
Convertible debentures	–	(364,604)	(3,035,158)	(396,078)
<b>Net liquidity</b>	<b>1,472,122</b>	<b>(1,067,157)</b>	<b>1,185,203</b>	<b>(396,078)</b>

All cash and cash equivalents are included within 30 days and would cover the shortfall in 30 days to 6 months. As disclosed in Note 8 the Company anticipates the receipt of the deferred consideration of \$4.2 million from Severstal on or before December 2010.

### Credit risk

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

	2009 \$	2008 \$
Financial institutions with S&P AA- rating or higher	<b>3,333,020</b>	8,743,602
Financial institutions un-rated or unknown rating	<b>362,776</b>	134,304
	<b>3,695,796</b>	8,877,906

## 20. Capital risk management

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

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

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

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

The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital risk management as at December 31, 2009.

## 21. Subsequent events

On January 8, 2010, the Company granted incentive stock options to certain directors and employees to purchase up to an aggregate of 1,208,750 common shares in the Company exercisable for a period of five years at a price of Cdn\$1.22 per share.

On February 19, 2010, Stellar completed its reverse takeover of West African Diamonds Limited. Simultaneously, West African Diamonds Limited changed its name to Stellar Diamonds plc, raised £5 million of new funds raised, undertook a 5 for 1 share consolidation of the enlarged share capital and converted the convertible loan notes issued on May 1, 2009 (including the \$200,000 notes held by African Aura) into new shares in the enlarged company (Note 12). Stellar Diamonds plc commenced trading on AIM on February 22, 2010. Consequently, African Aura's interest in Stellar Diamonds plc has been diluted to 31.8%.

On April 20, 2010, the Company announced that it has conducted a private placing to raise gross proceeds of approximately £11.3 million (\$17.5 million) consisting of 17,398,770 new common shares of no par value in the capital of the Company ('the Placing Shares') at 65 pence per share (CAD\$1.012) ('the Placing Price') ('the Placing').

### Highlights

- Under the Placing the Company intends to issue the new common shares to certain institutional and other investors and certain Directors of the Company.
- Participations by Directors of the Company in the Placing total over £450,000
- Net proceeds of the Placing are anticipated to fund the Company's projects detailed below for at least 14 months and are intended to be applied as follows:
  - for completion of a Bankable Feasibility Study on the New Liberty gold deposit in Liberia (estimated cost approximately \$9.0 million);
  - to deliver a maiden resource statement for the Nkout iron ore project in Cameroon (estimated cost approximately \$3.8 million);
  - to deliver a NI 43-101 resource statement for the Weaju deposit in Liberia (estimated cost approximately \$1.1 million); and
  - the remaining net proceeds to fund the Company's working capital requirements.
- No funds being raised in this Placing to be applied to Putu Iron Ore Project in Liberia, which is currently fully funded under the joint venture agreement with Severstal Resources.
- The Placing Price represents a discount of 3.7 per cent to the closing middle market price of 67.5 pence per common share on AIM on April 19, 2010 (the last trading day prior to the issue of this announcement).
- The Placing Shares will represent approximately 24.8 percent of the Company's enlarged issued share capital immediately following admission.

### Directors' Shareholdings

The Company has been notified that, conditional on admission, 702,650 common shares in aggregate will be placed at the Placing Price with the following Directors:

Director	Number of common shares taken up under the Placing	Value of common shares taken up under the Placing	Total number of common shares held following the Placing	Percentage of enlarged issued share capital
David Netherway	19,000	£12,350.00	84,594	0.12%
Luis da Silva	45,650	£29,672.50	58,159	0.08%
Guy Pas	538,000	£349,700.00	5,597,226	7.96%
David Evans	23,000	£14,950.00	245,500	0.35%
Steven Poulton	77,000	£50,050.00	1,234,102	1.74%
	<b>702,650</b>	<b>£456,722.50</b>	<b>7,219,581</b>	<b>10.27%</b>

Following admission, the total issued share capital of the Company will be 70,283,226 common shares, all of which have voting rights.

# Notes

# Directory

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