



Aura Minerals Inc.

Annual Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Independent Auditor's Report

To the Shareholders of Aura Minerals Inc.

We have audited the accompanying consolidated financial statements of Aura Minerals Inc. (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aura Minerals Inc. and its subsidiaries as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants

March 30, 2011
Vancouver, British Columbia

Aura Minerals Inc.

Consolidated Balance Sheets

As at December 31, 2010 and 2009

Expressed in thousands of United States dollars

	December 31, 2010	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents (note 6)	\$ 36,477	\$ 36,978
Accounts receivable (note 7)	11,393	3,525
Inventory (note 8)	47,227	12,468
Prepaid expenses and other current assets (note 9)	10,595	3,696
	105,692	56,667
Other non-current assets (note 10)	7,990	2,479
Deferred transaction costs (note 3(a))	-	1,000
Restricted cash (note 4)	-	56,866
Property, plant and equipment (notes 11, 13)	348,440	182,627
Goodwill (notes 4, 13)	18,214	-
Resource properties (note 12)	14,427	14,427
Future income tax assets (note 16)	9,094	1,672
	\$ 503,857	\$ 315,738
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 14)	\$ 32,443	\$ 16,141
Current portion of promissory notes payable (note 15)	23,048	-
	55,491	16,141
Promissory notes payable (note 15)	41,199	25,800
Future income tax liabilities (note 16)	36,204	34,793
Asset retirement obligations (note 17)	30,034	4,578
Deferred purchase consideration payable (note 4)	22,312	-
Other long-term liabilities (note 26(c))	5,408	3,264
	190,648	84,576
SHAREHOLDERS' EQUITY		
Capital stock (note 18)	468,604	339,693
Contributed surplus	43,832	35,780
Accumulated other comprehensive loss	(19,403)	(21,535)
Deficit	(179,824)	(122,776)
	313,209	231,162
	\$ 503,857	\$ 315,738

Contingencies and commitments (notes 4, 5, 12 and 26)

Subsequent events (notes 1, 27)

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

Approved on behalf of the Board of Directors:

"Elizabeth Martin"

Elizabeth Martin, Director

"Patrick Downey"

Patrick Downey, Director

Aura Minerals Inc.

Consolidated Statements of Operations and Comprehensive Loss

For the year ended December 31, 2010 and 2009

Expressed in thousands of United States dollars, except per share data

	December 31, 2010	December 31, 2009
Sales (note 25)	\$ 163,652	\$ 26,491
Mine operating expenses	117,717	18,164
Depletion, amortization and accretion	22,332	3,060
Net smelter return royalties	221	135
	140,270	21,359
Mine operating profit	23,382	5,132
Other expenses		
Stock-based compensation (note 18(g))	11,456	4,586
Cost of operations in care and maintenance	–	1,664
Exploration expenses (note 19)	24,157	10,699
General and administrative	14,637	7,753
Transaction costs (note 3(a))	2,335	–
Amortization and accretion	2,051	367
Impairment charge - Sao Vicente Mine (note 13)	24,276	–
Impairment charge - resource properties (note 12)	681	8,167
Operating loss	56,211	28,104
Interest expense	1,898	319
Other income	(3,411)	(781)
Realized loss on derivatives	–	1,777
Foreign exchange (gain) loss	(3,369)	1,175
Loss before income taxes	51,329	30,594
Income tax expense (note 16)	5,719	743
Net loss for the year	\$ 57,048	\$ 31,337
Other comprehensive loss		
Net gain on change in reporting currency (note 3(a))	–	(11,560)
Gain on fair value of effective hedges, net of tax (note 21)	(2,132)	–
Comprehensive loss for the year	\$ 54,916	\$ 19,777
Per share information:		
Weighted average number of common shares outstanding	200,249,555	137,672,624
Basic and diluted net loss per share	\$ 0.28	\$ 0.23

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

Aura Minerals Inc.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2010 and 2009

Expressed in thousands of United States dollars, except share amounts

	Capital Stock		Contributed Surplus	Accumulated	Deficit	Total
	Shares	Amount		other comprehensive loss		
At December 31, 2008	117,903,186	\$ 211,173	\$ 29,704	\$ (33,095)	\$ (91,439)	\$ 116,343
Private placement (note 18(c))	45,499,997	115,238	–	–	–	115,238
Shares issued as consideration for San Andres Acquisition (note 5)	8,084,728	19,583	–	–	–	19,583
Exercise of options for cash (note 18(f))	1,064,083	1,153	–	–	–	1,153
Exercise of options - fair value	–	590	(590)	–	–	–
Exercise of brokers warrants for cash (note 18(e))	1,500	4	–	–	–	4
Exercise of brokers warrants - fair value	–	3	(3)	–	–	–
Issuance of shares on property option payment	80,000	64	–	–	–	64
Stock based compensation	–	–	3,605	–	–	3,605
Warrants issued as financing fee (note 18(c))	–	–	4,227	–	–	4,227
Contingently returnable shares related to executive incentive (note 18(d))	–	–	981	–	–	981
Release of contingently returnable shares from escrow (note 18(d))	700,000	2,144	(2,144)	–	–	–
Share issue costs	–	(10,259)	–	–	–	(10,259)
Gain on change in reporting currency (note 3(a))	–	–	–	11,560	–	11,560
Net loss for the year	–	–	–	–	(31,337)	(31,337)
At December 31, 2009	173,333,494	\$ 339,693	\$ 35,780	\$ (21,535)	\$ (122,776)	\$ 231,162
Public offering (note 18(b))	18,000,000	70,476	–	–	–	70,476
Shares issued as consideration for the Brazilian Mines Acquisition (note 4)	13,859,533	53,760	–	–	–	53,760
Exercise of options for cash (note 18(f))	798,653	1,025	–	–	–	1,025
Exercise of options - fair value	–	456	(456)	–	–	–
Exercise of brokers warrants for cash (note 18(e))	1,586,758	4,244	–	–	–	4,244
Exercise of brokers warrants - fair value	–	2,948	(2,948)	–	–	–
Stock based compensation (note 18(g))	–	–	11,456	–	–	11,456
Share issue costs (note 18(b))	–	(3,998)	–	–	–	(3,998)
Gain on fair value of effective hedges, net of tax	–	–	–	2,132	–	2,132
Net loss for the year	–	–	–	–	(57,048)	(57,048)
At December 31, 2010	207,578,438	\$ 468,604	\$ 43,832	\$ (19,403)	\$ (179,824)	\$ 313,209

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

Aura Minerals Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

Expressed in thousands of United States dollars

	December 31, 2010	December 31, 2009
Operating activities		
Net loss for the year	\$ (57,048)	\$ (31,337)
Items not affecting cash (note 20(a))	58,520	14,498
Changes in non-cash working capital (note 20(b))	(4,786)	4,036
Other assets	(6,528)	–
Reclamation expenditures (note 17)	(159)	(281)
	(10,001)	(13,084)
Investing activities		
Resource property acquisition	(681)	–
Deferred transaction costs	–	(1,000)
Acquisition of marketable securities	(586)	(1,124)
Proceeds on sale of marketable securities	1,767	–
Transfer of funds from (to) restricted cash	56,866	(56,866)
Proceeds from property option payment (note 12(b))	–	3,000
Purchase of property, plant and equipment	(70,149)	(8,278)
Acquisition of the San Andres Mine, net of cash acquired (note 5)	–	(35,290)
Acquisition of the Brazilian Mines (note 4)	(49,464)	–
	(62,247)	(99,558)
Financing activities		
Proceeds received from financings (notes 18(b) and (c)), net of share issue costs	66,478	109,206
Proceeds on exercise of options	1,025	1,153
Proceeds on exercise of warrants	4,244	4
	71,747	110,363
Decrease in cash and cash equivalents	(501)	(2,279)
Effect of exchange rate changes on cash and cash equivalents	–	6,559
Cash and cash equivalents, beginning of the year	36,978	32,698
Cash and cash equivalents, end of the year	\$ 36,477	\$ 36,978

Supplementary cash flow information (note 20(c))

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

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

1 NATURE OF OPERATIONS

Aura Minerals Inc. (“Aura Minerals” or the “Company”) is a Canadian mining company focused on the acquisition, exploration, development and operation of mining properties in the Americas.

On April 30, 2010, the Company completed the acquisition (the “Brazilian Mines Acquisition”) of the producing Sao Vicente and Sao Francisco gold mines in Brazil (collectively, the “Brazilian Mines”), which is further described in note 4. The Company consolidated the results of operations of the Brazilian Mines commencing on May 1, 2010, the day following the Brazilian Mines Acquisition.

On August 25, 2009, the Company completed the acquisition (the “San Andres Acquisition”) of the shares of San Andres (Belize) Limited (“SAB”) and RNC (Honduras) Limited (“RNC”) (note 5). RNC and SAB together own 100% of the shares of Minerales de Occidente S.A. de C.V. (“Minosa”), which owns and operates the producing San Andres gold mine in Honduras (the “San Andres Mine”). The Company consolidated the results of operations of the San Andres Mine commencing on August 26, 2009, the day following the San Andres Acquisition.

In June 2008, the Company completed the acquisition of a 100% interest in all of the mining concessions, plant, surface and water rights and other assets relating to the copper-gold-silver Aranzazu mine in Zacatecas, Mexico (the “Aranzazu Mine”). The Aranzazu Mine was placed in care and maintenance in the fourth quarter of 2008, and on February 9, 2011 the Company announced that it had declared commercial production at the Aranzazu Mine, effective February 1, 2011.

In July 2007, the Company closed the acquisition of the feasibility-stage copper, gold and iron ore Arapiraca project in Brazil (the “Arapiraca Project”).

The Company is in the business of exploring for and mining minerals which by its nature involves a high degree of risk. There can be no assurance that current exploration or development programs will result in profitable mining operations. The recoverability of the carrying value of the mineral properties and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to obtain financing or, alternatively, upon the Company’s ability to dispose of its interests on an advantageous basis. All of the Company’s mineral and resource properties are located outside of Canada and are subject to the risks normally associated with foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and include the accounts of the Company and its direct and indirect wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated on consolidation.

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Use of estimates and measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. Significant areas requiring the use of estimates in the preparation of these consolidated financial statements include the determination of impairment of long-lived assets and goodwill, the valuation of inventories, the recording of asset retirement obligations, the determination of useful lives of property, plant and equipment, determination of proven and probable reserves, the allocation of purchase consideration for acquired assets to the fair values of the identifiable assets and liabilities and the valuation of any related goodwill, the determination of the fair value of stock-based compensation and other equity transactions, the fair values of derivatives, and the determination of the valuation allowance with respect to future income tax assets. Actual results could differ from these estimates.

c) Foreign currency translation

These consolidated financial statements are measured and expressed in United States dollars (note 3(a)). Integrated foreign operations are translated using the temporal method, whereby monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the average rates of exchange during the period, and any resulting foreign exchange gains and losses are included in earnings.

Self-sustaining foreign operations are translated at the rates of exchange at the balance sheet date, and revenues, expenses and cash flows are translated at the average exchange rates for the period. Differences arising from these foreign currency translations are recorded in other comprehensive loss.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

e) Inventory

Product inventory and in-process inventory are valued at the lower of average production cost and net realizable value. Product inventory consists of finished gold products and metals in concentrate. In-process inventory represents ore in stockpiles, ore on leach pads, and inventory in-circuit at the Company's process plants.

Production costs include mining costs, direct labour, operating materials and supplies, applicable haulage and transportation charges, and an applicable portion of operating overhead, including amortization and depletion. Net realizable value is the expected difference between the selling price for the finished product less the costs to get the product into saleable form and to the selling location. Supplies inventory consists of consumable parts and supplies and is valued at the lower of average cost and net realizable value. Cost represents the delivered price of the item.

Ore in stockpiles is comprised of ore extracted from the mine and available for further processing. Costs are added to ore in stockpiles at the current mining cost and are removed at the accumulated average cost per tonne.

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Inventory (continued)

Leach pad inventory is comprised of ore that has been extracted from the mine and placed on the heap leach pad for further processing. Costs are added to leach pad inventory based on current mining costs and are removed from leach pad inventory as gold ounces are recovered in the plant, based on the average cost per recoverable ounce on the heap leach pad. The quantity of recoverable gold in process is an engineering estimate which is based on the expected grade and recovery of gold from the ore placed on the leach pad. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. However, the estimate of recoverable gold placed on the leach pad is reconciled to actual gold production, and the engineering estimates will be refined based on actual results over time. The ultimate recovery of gold from each heap leach pad will not be known until the leaching process is concluded.

f) Property, plant and equipment

Property, plant and equipment is originally recorded at cost at the time of construction, purchase, or acquisition. Cost includes all costs required to bring the item into its intended use by the Company.

Costs incurred for new construction, mine development, and major overhaul of existing equipment are capitalized as property, plant and equipment on the balance sheet and are subject to amortization once they are put into use. The costs of routine maintenance and repairs are expensed as incurred.

Property, plant and equipment is amortized on the basis of its estimated useful life, using the straight-line and units of production methods.

The following depreciation rates are used by the Company:

Major class of assets	Depeciation Method	Depeciation Rate
Vehicles	Straight-line	4-5 years
Machinery and equipment	Straight-line	4-10 years
Mobile mining equipment	Straight-line	4-8 years
Furniture and fixtures	Straight-line	4-10 years
Computer equipment and software	Straight-line	3-5 years
Leasehold improvements	Straight-line	Lease term
Buildings	Straight-line	4-20 years
Plant	Straight-line	4-15 years
Mineral property	Units of production	

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Resource and mineral properties and exploration costs

Resource properties are those properties for which the Company has not yet determined whether economically recoverable mineral resources exist. Mineral properties are those properties which the Company estimates contain economically recoverable mineral resources. All costs related to the acquisition of resource properties and mineral properties are capitalized. Exploration costs are charged to earnings in the period in which they are incurred, including general exploration activities carried out on producing mining properties. At the time the Company determines that a resource property contains economically recoverable mineral resources, the capitalized costs of the related resource property are reclassified as mineral properties. Mineral property costs are amortized as operating costs using the units of production method based on estimated recoverable reserves upon commencement of mining operations. If, after management review, it is determined that the carrying amount of a resource property or mineral property is impaired, that property is written down to its estimated fair value by a charge to operations in the period in which the impairment is determined.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable mineral reserves and resources, the ability of the Company to obtain the necessary financing and permitting to complete the development of the properties, and future profitable production from the disposition of the metals produced from the properties.

At the Company's open pit mining operations, it is necessary to remove overburden in order to access the ore body (stripping). During the pre-production phase and during the production period, the stripping costs are deferred as part of the mineral property to the extent that the costs relate to anticipated future benefits and represent a betterment. Deferred stripping costs are depleted using the units of production method as the ore body accessed by the stripping activities is mined. Waste removal, which relates to current production activities and does not give rise to a future benefit, is accounted for as a production cost in the period in which it is incurred and is included in the cost of inventory.

h) Goodwill

Business acquisitions are accounted for using the purchase method, whereby assets and liabilities acquired are recorded to their fair values as of the date of acquisition and any excess of the purchase price over the fair value is recorded as goodwill. Goodwill is allocated to reporting units by preparing estimates of the fair value of each reporting unit and comparing this amount to the fair values of assets and liabilities in the reporting unit. Goodwill is not amortized.

The Company tests for impairment of goodwill on an annual basis, or as circumstances arise that indicate impairment, to determine whether the carrying amount of goodwill is recoverable. To accomplish this, the Company compares the fair values of its reporting units to their carrying amounts. If the carrying value of a reporting unit exceeds its fair value, the Company compares the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying value of goodwill over the implied fair value is charged to operations. Assumptions underlying fair value estimates are subject to significant risks and uncertainties.

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimated future cash flows for a long-lived asset are calculated using estimated future prices, mineral reserves and resources, and operation, capital and reclamation costs, where available, on an undiscounted basis. When estimated undiscounted future cash flows are less than the carrying value, an impairment loss is recognized. Reductions in the carrying value of a long-lived asset are recorded to the extent that the net book value of the asset exceeds fair value. Fair value is normally calculated based on discounted estimated future cash flow, however where estimates of future net cash flows are not available, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value.

j) Financial instruments

The Company classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables, or other liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations and comprehensive loss.

Derivative financial instruments

Derivative financial instruments, including any embedded derivatives, are recognized at fair value on the date of their inception and are subsequently re-measured at their fair value at each reporting date. Changes in the fair value of derivative financial instruments are recognized in the statement of operations within "Other expense (income)" with the exception of derivatives designated as effective cash flow hedges. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

Currency Hedging

The Company may enter into forward currency contracts from time to time to manage its foreign exchange exposure of the expenditures associated with its international operations. Where such contracts are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of these derivatives is recognized as a separate component of other comprehensive loss (income). Such gains and losses on cash flow hedges are recognized in the statement of operations when the hedged expenditure is recognized in the income statement, when the hedged item ceases to exist, or when the hedge is determined to be ineffective.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on a quarterly basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of the fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability, and the carrying amount of the asset is then amortized over the asset's useful life using the same amortization basis as the underlying asset.

Changes in the liability for an asset retirement obligation due to the passage of time are measured by applying an interest method of allocation. The amount is recognized as an increase in the liability and an accretion expense in the statement of operations. Changes in the fair value of the liability resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the asset retirement obligation and the related long-lived asset.

l) Revenue recognition

Revenue from the sales of gold and metals in concentrate is recognized in the financial statements when title to the product transfers and the rights and obligations of ownership pass to the customer. Incidental revenues from the sale of silver by-products as part of the Company's gold sales are classified within cost of sales.

Revenue from the sale of metals in concentrate is recorded in the statement of operations and comprehensive loss, net of treatment and refining deductions paid to counterparties under terms of the off-take arrangements. The majority of the Company's sales of concentrates are sold under pricing arrangements where the final prices are determined by quoted market prices in a period subsequent to the date of sale. As a result, the estimated revenue is recorded based on forward metal prices for the expected date of final settlement, resulting in the existence of an embedded derivative in the accounts receivable. This embedded derivative is recorded at fair value, with changes in fair value recorded as adjustments to revenue as they occur. These adjustments also reflect changes in quantities arising from final weight and assay calculations.

m) Leases

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as capital leases. Assets under capital lease are originally recorded at the net present value of the minimum lease payments. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

n) Stock-based compensation

The Company has a stock option plan, details of which are described in note 18(f). The fair value of stock options is recognized as compensation expense over their vesting period. The fair value of brokers' warrants issued in connection with common share placements is recognized on the date of issue as share issuance costs. On the exercise of stock options and brokers' warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income taxes are determined based on the differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are expected to reverse. The effect of a change in tax rates is recorded in the period in which the change is substantively enacted. Future income tax assets are recognized to the extent that realization of such benefits is considered to be more likely than not that future income tax assets will be realized.

p) Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP and includes unrealized gains and losses arising from the translation of the financial statements of self-sustained foreign operations, unrealized gains and losses on available-for-sale investments, the effects of the Company's change in reporting currency (note 3(a)), and the effective portion of cash flow hedges.

q) Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated using the treasury stock method, whereby all "in the money" options and warrants are assumed to have been exercised at the beginning of the year and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the year. When a loss is incurred during the year, basic and diluted loss per share are the same because the exercise of options and warrants is considered to be anti-dilutive.

3 CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

a) Changes in accounting policies

Business combinations

Effective January 1, 2010, the Company elected to adopt CICA Section 1582, "Business Combinations", which establishes updated principles on the recognition, measurement, and presentation for acquisitions. The new standard will be applied prospectively to all business combinations with a closing date on or after January 1, 2010. As a result of the application of this new standard, the Company recorded an expense of \$1,000,000 related to deferred transaction costs which were reported on the Company's balance sheet as of December 31, 2009. For the year ended December 31, 2010, the Company incurred additional expenses of \$1,335,000. All of the transaction costs related to the Brazilian Mines Acquisition. As a result of adopting the new standard, the Company has valued the shares issued in connection with the transaction as of the closing price the day before the transaction closed; under the previous standard, the Company would have valued the shares based on the announcement date. In addition, the Company has recorded an amount for deferred purchase consideration payable on the transaction, as described in note 4.

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

3 CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS *(continued)*

a) Changes in accounting policies *(continued)*

Business combinations (continued)

As a result of adopting Section 1582, the Company was also required to adopt Section 1602, "Non-Controlling Interests", and Section 1601, "Consolidated Financial Statements", which establish updated principles on the recognition, measurement and presentation for non-controlling interests and consolidated financial statements. The adoption of these standards did not have a significant impact on the Company's interim consolidated financial statements.

Deferred stripping

During the third quarter of 2010, the Company commenced stripping activities at the Brazilian Mines to access additional ore resources. The Company's accounting policy for deferred stripping costs is included in note 2(g).

Hedge accounting

Effective May 1, 2010, the Company elected to adopt CICA Section 3865, "Hedges", which establishes the accounting treatment of derivative financial instruments designated as hedges. The Company adopted this standard in anticipation of entering into forward currency contracts to manage the foreign exchange exposure on expenditures associated with international operations. The Company has applied this standard on a prospective basis from May 1, 2010. The Company's accounting policy for hedge accounting is included in note 2(j).

Goodwill

As a result of the Brazilian Mines Acquisition, the Company has recognized goodwill. The Company's accounting policy for goodwill is included in note 2(h).

Change in measurement and reporting currency

Effective October 1, 2009, the Company changed its measurement and reporting currency from the Canadian dollar to the United States dollar as a result of a change in the nature of the Company's operations following the San Andres Acquisition. The change in reporting currency was made to better reflect the Company's operating activities and to improve the financial statement users' ability to compare the Company's financial results with other companies in the mining industry.

In making the change in reporting currency, the Company followed the guidance in Emerging Issues Committee ("EIC") 130, "Translation Method when the Reporting Currency Differs from the Measurement Currency or There is a Change in the Reporting Currency". In accordance with EIC-130, all assets and liabilities are translated into the reporting currency using the current rate method. Under this method, all assets and liabilities were translated using the exchange rate prevailing on September 30, 2009, and all items in the 2009 statement of operations and cash flow statement were translated using the average exchange rate prevailing during each period. Shareholders' equity transactions were translated at the exchange rates on the dates on which the transactions occurred. All resulting exchange differences arising from the translation have been included as a separate component of other comprehensive loss. For the year ended December 31, 2009, a gain on the translation from the change in reporting currency of \$11,560,000 was recorded in other comprehensive loss and included in the balance sheet in accumulated other comprehensive loss.

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

3 CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS *(continued)*

b) Recent accounting pronouncements

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011, the Company will be required to prepare its consolidated financial statements in accordance with IFRS. The Company will issue its first consolidated financial statements under IFRS for the quarter ended March 31, 2011, and comparative data on an IFRS basis will be included as required.

4 ACQUISITION OF THE BRAZILIAN MINES

On July 17, 2009, the Company entered into an asset purchase agreement (the "Asset Purchase Agreement") to acquire the assets and liabilities of the Brazilian Mines. Closing of the Brazilian Mines Acquisition occurred on April 30, 2010 and consideration consisted of:

- (i) cash of \$49,464,000, inclusive of a net free cash flow adjustment of \$7,401,000, as described below;
- (ii) the issuance of 13,859,533 common shares of Aura Minerals valued at \$53,760,000 using the Company's share price on the day prior to closing; and
- (iii) \$38,447,000, inclusive of a net free cash flow adjustment of \$5,753,000 as described below, in the form of a promissory note.

In addition, the Brazilian Mines Acquisition includes deferred purchase price consideration payable of \$28,404,000, inclusive of a \$3,154,000 adjustment, as described below. The deferred purchase price consideration is payable as to 50% of all net free cash flow generated from the Brazilian Mines from and after the date of the Asset Purchase Agreement that exceeds the cumulative net free cash flow of \$135,000,000. An amount of \$21,321,000 has been included in the purchase price, representing the estimated fair value of the deferred purchase price consideration. Accretion expense on the deferred purchase price consideration payable for the year ended December 31, 2010 totalled \$991,000.

The parties agreed that during the period from the date of the Asset Purchase Agreement to April 30, 2010, the cumulative net free cash flow generated from the Brazilian Mines was to be retained by the vendors. However, the cash consideration payable and the principal amount of the promissory note was subject to a reduction, on a *pro rata* basis, at the closing of the Brazilian Mines Acquisition in an amount equal to the net free cash flow generated from the operation of the Brazilian Mines during this interim period (the "Net Free Cash Flow Adjustment"). If the Net Free Cash Flow Adjustment exceeded \$10,000,000, such excess was added to the amount of the deferred purchase price consideration related to the Brazilian Mines. As of April 30, 2010, the net free cash flow generated from the Brazilian Mines totalled \$13,154,000, resulting in a reduction of the cash consideration payable of \$7,401,000, a reduction of the promissory note payable of \$5,753,000, and an increase in the deferred purchase consideration of \$3,154,000.

Further, to the extent that the net free cash flow threshold for the Brazilian Mines has been reached before the net free cash flow threshold for the San Andres Mine, 50% of all net free cash flow from the Brazilian Mines shall continue to be payable, up to and until the deferred purchase price consideration related to the San Andres Mine has been paid in full (note 5).

On March 18, 2011, the Company completed a restructuring of its contractual obligations under the promissory note and deferred purchase consideration (note 27(a)).

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Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

4 ACQUISITION OF THE BRAZILIAN MINES (continued)

Pursuant to the Asset Purchase Agreement, the Company placed \$56,866,000 in escrow during 2009 to cover the cash component of the purchase consideration before the impact of the Net Free Cash Flow Adjustment. These funds were released from escrow immediately prior to the closing of the Brazilian Mines Acquisition.

The transaction has been accounted for as a business combination, with Aura Minerals as the acquirer of the Brazilian Mines, and the Company has included the results of the Brazilian Mines in its consolidated financial statements commencing on May 1, 2010. As described in note 3(a), effective January 1, 2010 the Company has adopted Section 1582 of the CICA Handbook regarding business combinations and as such has applied Section 1582 to the purchase consideration and purchase price allocations below.

The Brazilian Mines have contributed revenues of \$79,181,000 and a net loss of \$43,098,000 for the period from May 1, 2010 to December 31, 2010. If the acquisition had occurred on January 1, 2010, the Brazilian Mines would have contributed revenues of \$132,228,000 (*pro forma – unaudited*) and a net loss of \$41,293,000 (*pro forma – unaudited*).

The purchase price is summarized as follows:

Cash consideration paid	\$	49,464
Promissory note		38,447
Net present value of deferred purchase price consideration		21,321
Value of common shares issued		53,760
Total consideration	\$	162,992

The final allocation of the consideration to the fair values of the identifiable assets and liabilities is as follows:

Assets acquired

Accounts receivable, prepaid expenses and other assets	1,007
Inventory	23,510
Property, plant and equipment	74,378
Mineral property	75,233
Goodwill	24,285
	\$ 198,413

Liabilities assumed

Accounts payable and other current liabilities	(12,060)
Future income tax liabilities	(124)
Asset retirement obligation	(23,237)
	(35,421)
Net assets acquired	\$ 162,992

Aura Minerals Inc.

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For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

4 ACQUISITION OF THE BRAZILIAN MINES (continued)

Goodwill on the transaction has arisen primarily due to the fair value of the share consideration issued to the vendors. In accordance with the new accounting standards, management has valued the share consideration at the Company's share price on the day before the transaction closed. Under the previous applicable Canadian GAAP rules, the shares would have been valued at the share price at the announcement date. During the time period between the date of the Asset Purchase Agreement and the closing date of the Brazilian Mines Acquisition, the Company's share price increased significantly, causing an increase in the value of the overall purchase consideration. The Company attributes a portion of the goodwill to the potential of the land and mineral rights acquired to provide reserves and resources over and above the value attributed to the mineral property.

5 ACQUISITION OF THE SAN ANDRES MINE

On August 25, 2009, the Company purchased all of the outstanding common shares of RNC and SAB, which, through Minosa, hold a 100% interest in the San Andres Mine. Consideration for the San Andres Acquisition consisted of:

- (i) Cash of \$35,884,000, including \$2,750,000 in respect of a working capital adjustment at closing;
- (ii) \$19,583,000 by the issuance of 8,084,728 common shares of Aura Minerals, valued at the five day average of the Company's closing share price on June 10, 2009, being the first business day following the announcement of the San Andres Acquisition, and the two days before and after June 10, 2009; and
- (iii) \$25,800,000 in the form of two promissory notes.

In addition, the consideration includes deferred purchase price consideration payable of \$14,750,000. The deferred consideration is payable as to 50% of all net free cash flow from the San Andres Mine from and after August 25, 2009 that exceeds the cumulative net free cash flow of \$79,000,000. As further described in note 4, to the extent that the net free cash flow threshold for the San Andres Mine has been reached before the cumulative net free cash flow threshold for the Brazilian Mines, 50% of all net free cash flow from the San Andres Mine shall continue to be payable, up to and until the deferred purchase price consideration related to the Brazilian Mines has been paid in full. No amount has been recorded in the purchase price for the contingent consideration related to the San Andres Acquisition.

On March 18, 2011, the Company completed a restructuring of its contractual obligations under the promissory notes and deferred purchase consideration (note 27(a)).

The transaction has been accounted for as a business combination, with Aura Minerals as the acquirer of RNC and SAB. As the closing date of the San Andres Acquisition occurred before January 1, 2010, the Company has applied CICA Handbook section 1581 to this transaction. The purchase price is summarized as follows:

Cash consideration paid	\$ 35,884
Promissory notes	25,800
Value of common shares issued	19,583
Consulting, legal and due diligence costs	730
Total consideration	\$ 81,997

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

5 ACQUISITION OF THE SAN ANDRES MINE (continued)

The final allocation of the purchase consideration to the fair values of the identifiable assets and liabilities is as follows:

Assets acquired

Cash and cash equivalents	\$	1,324
Accounts receivable, prepaid expenses and other assets		4,924
Inventory		16,334
Other non-current assets		934
Property, plant and equipment, net		33,392
Mineral property		51,242
		108,150

Liabilities assumed

Accounts payable and accrued liabilities	\$	(9,801)
Other long term liabilities		(3,102)
Asset retirement obligation		(3,445)
Future income tax liability		(9,805)
		(26,153)

Net assets acquired	\$	81,997
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6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of:

	December 31, 2010	December 31, 2009
Cash and interest-bearing deposits	\$ 36,477	\$ 36,932
Other short-term investments	–	46
	\$ 36,477	\$ 36,978

7 ACCOUNTS RECEIVABLE

Accounts receivable consists of:

	December 31, 2010	December 31, 2009
Trade accounts receivable	\$ 609	\$ 1,529
Value added taxes receivable	9,586	1,885
Other receivables	1,198	111
	\$ 11,393	\$ 3,525

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

8 INVENTORY

Inventory consists of:

	December 31, 2010	December 31, 2009
Product inventory	\$ 18,267	\$ 4,551
Ore on leach pads and in stockpiles	3,411	519
Metal in circuit and gold in process	6,890	523
Parts and supplies	18,659	6,875
	\$ 47,227	\$ 12,468

Of the total product inventory, ore on leach pads and in stockpiles, and metal in circuit and gold in process inventories of \$28,568,000 as of December 31, 2010, \$18,836,000 is stated at net realizable value. A write down of \$3,737,000 was recorded during the year ended December 31, 2010 (2009: \$nil) to bring inventories to their net realizable values and is included in mine operating expenses in the consolidated statement of operations.

9 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consists of:

	December 31, 2010	December 31, 2009
Prepaid expenses, advances and deposits	\$ 6,339	\$ 3,696
Marketable securities	1,058	-
Current portion of derivative related assets (note 21)	3,198	-
	\$ 10,595	\$ 3,696

10 OTHER NON-CURRENT ASSETS

Other non-current assets consists of:

	December 31, 2010	December 31, 2009
Long-term receivables and deposits	\$ 6,976	\$ 1,110
Marketable securities	-	1,369
Derivative related assets (note 21)	1,014	-
	\$ 7,990	\$ 2,479

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

11 PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2010, property, plant and equipment was comprised of the following:

	Cost	Accumulated Amortization	Net book value
Land	\$ 1,510	\$ –	\$ 1,510
Vehicles	2,783	(648)	2,135
Machinery and equipment	69,901	(10,794)	59,107
Mobile mining equipment	6,200	(958)	5,242
Furniture and fixtures	2,680	(504)	2,176
Computer equipment and software	3,399	(936)	2,463
Leasehold improvements	3,453	(582)	2,871
Buildings	37,065	(5,014)	32,051
Plant	6,150	(237)	5,913
Assets under construction	46,913	–	46,913
Depletable mineral property	195,190	(13,423)	181,767
Non-depletable mineral property	6,292	–	6,292
	\$ 381,536	\$ (33,096)	\$ 348,440

Depletable mineral property as of December 31, 2010 includes \$11,764,000 of deferred stripping costs.

As at December 31, 2009, property, plant and equipment was comprised of the following:

	Cost	Accumulated Amortization	Net book value
Land	\$ 1,228	\$ –	\$ 1,228
Vehicles	732	(174)	558
Machinery and equipment	11,497	(878)	10,619
Mobile mining equipment	5,083	(463)	4,620
Furniture and fixtures	895	(117)	778
Computer equipment and software	1,137	(390)	747
Leasehold improvements	468	(162)	306
Buildings	4,643	(406)	4,237
Plant	6,082	(237)	5,845
Projects in process	28,283	–	28,283
Depletable mineral property	127,589	(2,183)	125,406
	\$ 187,637	\$ (5,010)	\$ 182,627

Total depletion and amortization expense recorded in the statement of operations and comprehensive loss for the year ended December 31, 2010 was \$22,089,000 (2009 - \$3,529,000). Of the depreciation and amortization recorded in the statement of operations and comprehensive loss for the year ended December 31, 2009, \$258,000 was included in the cost of operations in care and maintenance.

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

12 RESOURCE PROPERTIES

A continuity of acquisition costs during the years ended December 31, 2009 and 2010 is as follows:

	Arapiraca Project	Non-core Projects	Total
Balance, December 31, 2008	\$ 4,346	\$ 17,518	\$ 21,864
Additions during the year ended December 31, 2009:			
Proceeds from property option payment (note 12(b))	–	(3,000)	(3,000)
Impairment charge - mineral properties (note 12(b))	–	(8,167)	(8,167)
Effect of foreign exchange on resource properties (note 3(a))	1,321	2,409	3,730
Balance, December 31, 2009	\$ 5,667	\$ 8,760	\$ 14,427
Additions during the year ended December 31, 2010:			
Acquisition costs - land	681	–	681
Impairment charge - land	(681)		(681)
Balance, December 31, 2010	\$ 5,667	\$ 8,760	\$ 14,427

a) Arapiraca Project, Brazil

Certain of the Arapiraca Project properties are subject to net smelter return royalty (“NSR”) payments on future production to the original owner of 0.75% on copper, 1.0% on gold and 4.0% on all other mineral production.

b) Non-core Projects

The Company’s non-core projects in Brazil include the Cumaru (Gradaus) Project, the Cumaru Project, the Inaja Project, and the North Carajas Project. During the first quarter of 2009, the Company elected to terminate its option agreement on the Cumaru (Gradaus) Project in the State of Para, Brazil. In connection with the termination of the option agreement, the Company recognized an impairment charge of \$8,167,000 in 2009.

In prior years, the Company acquired, a 100% interest in the Cumaru Project in the state of Para, Brazil. A previous land owner has retained a 1.5% NSR on the property that may be purchased by Aura Minerals for \$1,250,000.

In prior years, the Company acquired, through various option payments, a 100% interest in certain mineral claims known as the AGS, JN, EM, and the Forquilha pit located in the State of Para, Brazil (the “Inaja Project”). On the AGS Property, the optionors have retained a 2.0% to 3.0% sliding scale NSR, based on the price of gold, which royalty may be purchased for \$1,000,000 for each 1%, payable as calculated on the commencement of production. On the Forquilha Pit, the optionors have retained a 1.5% NSR, which may each be purchased for \$1,500,000.

On March 13, 2009, the Company entered into an option agreement with Vale S.A. (“Vale”), (the “Option Agreement”), wherein Vale has been granted an option to earn a 51% interest in the Inaja Project by making a cash payment of \$3,000,000 and then expending \$6,000,000 in exploration work within four years from the execution of the Option Agreement. Vale may then earn an additional 19% by funding and delivering a bankable feasibility study within 36 months of electing to earn such additional interest. Once a joint venture is formed, should either party’s interest in the Inaja Project be diluted below 10%, its interest will be converted into a 2% NSR. The payment of \$3,000,000 was received during 2009, and was applied as a reduction of the carrying value of the Inaja Project.

Pursuant to an agreement dated January 1, 2006, the Company was assigned a 100% interest in certain mineral claims related to the North Carajas Project and other projects in the State of Para, Brazil, in consideration for a 2% NSR from any future production on these properties.

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13 IMPAIRMENT CHARGE – SAO VICENTE MINE

During the year ended December 31, 2010, the Company experienced high operating costs at its Sao Vicente Mine in Brazil, which the Company considered to be a triggering event for the purpose of assessing whether the carrying value of the Sao Vicente Mine's long-lived assets and related goodwill were impaired. The higher operating costs were the result of a number of factors, including a strengthening Brazilian real, inflation rates in Brazil, and increased contract mining costs.

The Company conducted an impairment test whereby the carrying values of the Sao Vicente Mine's property, plant and equipment, including mineral properties were compared to the mine's fair value. The Sao Vicente Mine's estimated future cash flows were calculated on an undiscounted basis, using the Company's best estimates of future gold production, long-term gold price, and estimates of operating costs and fluctuations in the exchange rates between the United States dollar and the Brazilian real.

The Company's analysis concluded that the assets of the Sao Vicente Mine were impaired, and as a result, the Company discounted the estimated cash flows using a 6% discount rate in order to obtain an estimate of the fair value of the Sao Vicente Mine. The Company also evaluated the goodwill assigned to the Sao Vicente Mine and determined that the entire goodwill, in the amount of \$6,071,000, was also impaired. The remaining goodwill in the amount of \$18,214,000 included in the Company's assets relates to the Sao Francisco Mine. The Company's estimate of future cash flows is subject to risks and uncertainties and therefore could change in the future if the underlying assumptions change.

Based on the results of the impairment analysis, the Company recorded an impairment charge of \$24,276,000 as of December 31, 2010, which consisted of a reduction of goodwill of \$6,071,000 and a reduction of mineral properties included in property, plant and equipment of \$18,205,000.

14 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	December 31, 2010	December 31, 2009
Trade accounts payable	\$ 18,560	\$ 3,535
Income taxes payable	8,514	9,039
Accrued liabilities	2,448	1,958
Other payables	2,921	1,609
	\$ 32,443	\$ 16,141

Aura Minerals Inc.

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15 PROMISSORY NOTES PAYABLE

	December 31, 2010	December 31, 2009
Balance, beginning of the year	\$ 25,800	\$ –
Promissory notes issued in the year (notes 4, 5)	38,447	25,800
Balance, end of the year	\$ 64,247	\$ 25,800
Less: Current portion included in current liabilities	(23,048)	–
	\$ 41,199	\$ 25,800

On August 25, 2009 the Company issued two promissory notes totalling \$25,800,000 in connection with the San Andres Acquisition and, on April 30, 2010, the Company issued another promissory note of \$38,447,000 in connection with the Brazilian Mines Acquisition (collectively, the “Promissory Notes”). The Promissory Notes bear interest at six-month LIBOR plus 3%, with interest due and payable monthly. The Promissory Notes can be repaid at any time without penalty.

Repayment terms include \$10,000,000 payable on February 25, 2011, \$13,048,000 payable on October 31, 2011, \$15,800,000 payable on August 25, 2012 and \$25,399,000 payable on April 30, 2013. The February 25, 2011 payment was extended by the Promissory Note holder, pending the restructuring that was completed on March 18, 2011. Security under the Promissory Notes is provided by a pledge of the shares of Aura Minerals’ subsidiaries which own the shares of Minosa and the Brazilian subsidiary which acquired the Brazilian Mines and by a guarantee of Aura Minerals.

On March 18, 2011, the Company completed a restructuring of its contractual obligations under the Promissory Notes, including a release of all related security, as further described in note 27(a).

16 INCOME TAXES

a) Income tax expense

Income tax expense included in the consolidated statement of operations and comprehensive loss is as follows:

	December 31, 2010	December 31, 2009
Current income tax expense	\$ 12,618	\$ 2,584
Future income tax recovery	(6,899)	(1,841)
Income tax expense (recovery)	\$ 5,719	\$ 743

The reconciliation of income taxes calculated at the Canadian statutory tax rates to the income tax expense shown in these financial statements is as follows:

Aura Minerals Inc.

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Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

16 INCOME TAXES (continued)

a) Income tax expense (continued)

	December 31, 2010	December 31, 2009
Loss before income taxes	\$ 51,329	\$ 30,594
Canadian statutory income tax rate	28.50%	30.00%
Income tax recovery based on statutory income tax rate	\$ (14,629)	\$ (9,178)
Difference in statutory tax rates in foreign jurisdictions	7,263	(455)
Change in valuation allowance	6,812	2,126
Non-deductible expenses	7,275	3,427
Non-taxable items	(499)	(62)
Impact of reduction in tax rates on future income taxes	429	2,216
Effect of foreign exchange on income taxes	(1,426)	(360)
Other	494	3,029
Income tax expense (recovery)	\$ 5,719	\$ 743

b) Future income tax assets and liabilities

The temporary differences and tax losses that give rise to future income tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Future income tax assets (liabilities) - non-current		
Tax losses carried forward	\$ 33,275	\$ 29,012
Share issuance costs	2,448	2,384
Property, plant and equipment	(36,786)	(33,057)
Resource properties	(2,378)	(2,285)
Other taxable temporary differences	5,687	(3,115)
Valuation allowance	(29,356)	(26,060)
Future income tax assets (liabilities) - non-current	\$ (27,110)	\$ (33,121)

Net future income tax assets and liabilities are classified as follows:

	December 31, 2010	December 31, 2009
Future income tax assets - non-current	\$ 9,094	\$ 1,672
Future income tax liabilities - non-current	(36,204)	(34,793)
Net future income tax assets (liabilities) - non-current	\$ (27,110)	\$ (33,121)

Aura Minerals Inc.

Notes to the Consolidated Financial Statements

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Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

16 INCOME TAXES (continued)

b) Future income tax assets and liabilities (continued)

Management believes that uncertainty exists regarding the realization of certain future tax assets, and as a result a valuation allowance has been recorded. The valuation allowance will be adjusted in the period where management has determined that it is more likely than not that some portion of the future tax assets will be realized.

As of December 31, 2010, the Company had tax operating losses of approximately \$28,220,000 in Canada expiring between 2025 and 2030, \$23,560,000 in Mexico expiring between 2018 and 2020, and \$51,796,000 in Brazil, which can be carried forward indefinitely.

17 ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations relate to the restoration and closure of the Company's mining operations and projects under development. The asset retirement obligations have been recorded as liabilities at fair value, assuming credit adjusted risk-free discount rates of between 6.8% and 8.0%, and inflation factors of between 3.0% and 9.0%. The amount of the liabilities is reassessed during each reporting period. The total inflated undiscounted amounts of the estimated obligations are approximately \$38,103,000 and are expected to be incurred through 2023. All of the assumptions used are subject to change.

The following table summarizes the movements in the asset retirement obligation activities:

	December 31, 2010	December 31, 2009
Balance, beginning of the year	\$ 4,578	\$ 1,154
Asset retirement obligations recorded on acquisition (notes 4, 5)	23,237	3,445
Add: Accretion of liability component of asset retirement obligations	1,304	239
Add: Increase in liability due to change in estimate	1,074	-
Less: Expenses incurred	(159)	(281)
Effect of foreign exchange on asset retirement obligations	-	21
Balance, end of the year	\$ 30,034	\$ 4,578

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Expressed in United States dollars, except where otherwise noted. Tables are expressed in thousands of United States dollars, except where otherwise noted.

18 CAPITAL STOCK

a) Authorized – Unlimited number of common shares

b) February 2010 Public Offering

On February 4, 2010, the Company and its major shareholder, Zoneplan Limited (the “Selling Shareholder”), closed a bought deal public offering of 18,000,000 common shares from the treasury of the Company (the “Treasury Common Shares”) and 6,000,000 previously issued common shares of the Company from the holdings of the Selling Shareholder, in each case at a price of C\$4.20 per common share, and for aggregate gross proceeds of C\$100,800,000, of which C\$75,600,000 (\$70,476,000) was attributable to the Company. Aggregate net proceeds received by the Company were \$66,478,000 net of underwriters’ fees and share issue costs of \$3,998,000.

c) July 2009 Private placement

On July 15, 2009, the Company closed the private placement offering (the “July Offering”) of 227,500,000 subscription receipts (the “Subscription Receipts”), at a price of C\$0.55 per Subscription Receipt for aggregate gross proceeds to the Company of C\$125,125,000 (\$115,238,000). The gross proceeds from the sale of the Subscription Receipts were placed in escrow on closing of the July Offering. Upon the Company having satisfied certain escrow release conditions, the net proceeds of C\$118,507,000 (\$109,206,000) were released to the Company immediately prior to the closing of the San Andres Acquisition. Upon satisfaction of the escrow release conditions, and as a result of the Consolidation which was effected on July 23, 2009, each Subscription Receipt automatically converted into 0.20 of one common share of the Company, resulting in a total issuance of 45,499,997 common shares. In connection with the July Offering, the Company incurred share issuance costs of \$6,032,000 and issued to the underwriters 2,274,996 brokers’ warrants, with each warrant entitling the holder to purchase one common share at an exercise price of C\$2.75 per share until January 15, 2011.

The value of \$4,227,000 has been attributed to the 2,274,996 brokers’ warrants pursuant to the Black-Scholes pricing model and has been included in share issue costs. The value of the brokers’ warrants was calculated using the following assumptions: no dividends are to be paid; volatility of 154%, a risk-free interest rate of 1.33%, and an expected life of 1.3 years.

d) Shares held in escrow

Pursuant to an employment agreement dated April 3, 2007 and amended January 28, 2008, the Company agreed to issue 700,000 common shares (the “Signing Shares”) to the President and CEO subsequent to the acquisition of the Arapiraca Project. The Signing Shares were issued on January 28, 2008 and were held in escrow until 2009 when they were released from escrow as a result of one of the escrow release conditions having been met, being the issuance of technical reports prepared in accordance with National Instrument 43-101, “Standards of Disclosure for Mineral Projects”, which established that the Arapiraca Project had mineral resources (in all categories) in excess of 210 million tonnes. At the time of the release, the fair value of these shares, in the amount of \$2,144,000, was recorded to capital stock.

The fair value of the Signing Shares of \$2,144,000 was determined to be based on the market value of the Company’s common shares at the time of the initial employment agreement. The expense associated with the escrowed shares was being recognized on a straight line basis over a five year period as part of stock based compensation; however, upon release from escrow the unamortized balance was recognized in the period of such release. For the year ended December 31, 2009, the expense recognized for the Signing Shares was \$981,000.

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18 CAPITAL STOCK (continued)

e) Warrants

The following table summarizes activity related to the Company's issued brokers' warrants during the years ended December 31, 2009 and 2010:

	Number of warrants		Weighted average exercise price C\$
Balance, December 31, 2008	444,450	\$	7.43
Brokers' warrants issued (note 18(c))	2,274,996		2.75
Expired	(444,450)		7.43
Exercised	(1,500)		2.75
Balance, December 31, 2009	2,273,496	\$	2.75
Exercised	(1,586,758)		2.75
Balance, December 31, 2010	686,738	\$	2.75

As at December 31, 2010, the following brokers' warrants are outstanding:

Expiry date	Grant date fair value	Number outstanding	Exercise price C\$
January 15, 2011	\$ 1,276	686,738	\$ 2.75

f) Stock options

On May 27, 2010, Aura Minerals adopted the 2010 Stock Option and Share Compensation Plan (the "Plan"), which replaced the Company's 2007 Stock Option and Share Compensation Plan. Under this rolling plan, options to purchase common shares have been granted to directors, employees and consultants of the Company and its subsidiaries at exercise prices not less than the volume weighted average trading price for the five trading days immediately preceding the respective grant date and may be exercised within five years from that date, subject to any vesting provisions determined by the board of directors of the Company (the "Board"). Under the Plan, the Board may grant options such that the total number of common shares which may be subject to options and bonus shares granted under the Plan and pursuant to any other security-based compensation plan, unless otherwise approved by shareholders, is 10% of the issued and outstanding common shares at the time of the grant and provided that the number of common shares which may be issued as bonus shares in any calendar year does not exceed 250,000.

A continuity of issued and outstanding stock options is as follows:

	Number of options		Weighted Average exercise price C\$
Balance, December 31, 2008	10,942,811	\$	3.80
Granted	2,105,000		3.15
Exercised	(1,064,083)		1.15
Forfeited	(428,100)		5.91
Balance, December 31, 2009	11,555,628	\$	3.83
Granted	4,965,000		3.75
Exercised	(798,653)		1.33
Forfeited	(1,913,310)		5.41
Balance, December 31, 2010	13,808,665	\$	3.72

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18 CAPITAL STOCK (continued)

f) Stock options (continued)

As at December 31, 2010, the following stock options were outstanding and exercisable:

	Options outstanding			Options exercisable
	Exercise price C\$	Number outstanding	Remaining contractual life (years)	Number exercisable
	\$0.78	2,586,165	3.0	2,586,165
	\$2.50 to \$3.77	5,862,850	3.4	4,364,100
	\$3.84 to \$5.35	3,329,250	3.1	2,044,445
	\$5.80 to \$7.85	2,030,400	1.8	2,030,400
Average/Total	\$ 3.72	13,808,665	3.0	11,025,110

g) Stock-based compensation

Stock-based compensation expense is measured at fair value and recognized over the vesting period from the date of grant. Stock-based compensation recognized during the year ended December 31, 2010 totalled \$11,456,000 (2009 - \$4,586,000). Of this amount, \$nil (2009 - \$981,000) relates to the amortization of the fair value of the Signing Shares for the year ended 2010, as described in note 18(d). The fair value of stock options granted during the years ended December 31, 2010 and 2009 was estimated using the Black-Scholes option pricing model with the following assumptions:

	For the year ended December 31, 2010	For the year ended December 31, 2009
Expected volatility	105-116%	117-125%
Risk-free interest rate	1.79-2.80%	1.61-2.42%
Expected life (years)	5	5
Expected dividend yield	0%	0%

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimated, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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18 CAPITAL STOCK (continued)

h) Other stock-based payment plans

a. Deferred share unit plan ("DSU Plan")

In April 2010, Aura Minerals adopted a DSU Plan, which is available to all non-executive directors (collectively, "eligible directors"). Pursuant to the DSU Plan, the annual Board retainer fee (the "Annual Retainer") may be paid 50% in cash (the "Annual Cash Retainer") and 50% in the form of deferred share units ("DSUs"). However, on an annual basis, an eligible director can also elect to receive DSUs in full or partial satisfaction of the Annual Cash Retainer and annual retainer fees received for serving as a member of a Board committee and for chairing a Board committee meeting (collectively, "Annual Cash Remuneration"). Notwithstanding the foregoing, an eligible director who has exceeded his or her minimum DSU/common share ownership requirement, as established by the Board, may elect, on an annual basis, to receive cash for all or any portion of the compensation otherwise payable in DSUs. The number of DSUs granted to an eligible director is determined by dividing the portion of the compensation to be paid in DSUs by the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant (the "value of a DSU"). Each eligible director will be required to hold DSUs received until the eligible director ceases to be a director of the Company, following which the DSU will be redeemed for cash. As of December 31, 2010, the Company had issued 1,863 DSUs with a fair value of \$7,000.

b. Non-treasury share unit plan ("NTSU Plan") and treasury share unit plan ("TSU Plan")

The Company adopted a NTSU Plan in April 2010 and a TSU Plan in May 2010, which are both available to eligible employees, officers and consultants of the Company and its subsidiaries (collectively, the "eligible participants"). Pursuant to the NTSU Plan and the TSU Plan, the compensation committee is authorized to grant units ("Share Units") consisting of restricted share units and/or performance share units to eligible participants. Each Share Unit will vest in accordance with applicable conditions specified at the time of grant, consisting of time and/or performance conditions which may be graduated by percentages, including a percentage in excess of 100%. Settlement of Share Units granted under the NTSU plan shall be in common shares, purchased on the open market by a trustee appointed for such purpose, or in cash, based on the market value of a common share on the date of settlement, as determined pursuant to the NTSU Plan, or in a combination thereof, as determined by the compensation committee. The TSU Plan provides that the maximum number of common shares that are reserved for issuance from time to time pursuant to Share Units shall not exceed 0.5% of the issued and outstanding common shares. Settlement of Share Units granted under the TSU Plan shall be in common shares issued from treasury. As of December 31, 2010, no Share Units have been granted by the Company.

Aura Minerals Inc.

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19 EXPLORATION EXPENSES

For the year ended December 31, 2010, exploration expenses were comprised of the following:

	Arapiraca Project	Aranzazu Mine	Brazilian Mines	San Andres Mine	Non-core Projects	Total
Consulting	\$ 1,578	\$ 490	\$ 281	\$ 190	\$ 52	\$ 2,591
Drilling	2,049	8,979	2,258	19	–	13,305
Field administration	–	–	–	–	290	290
Field supplies	185	82	162	92	1	522
Geological and assays	264	1,039	385	–	–	1,688
Land maintenance	151	–	3	–	–	154
Other	1,285	511	453	37	34	2,320
Salaries, wages and benefits	1,797	321	690	–	1	2,809
Travel	132	132	211	–	3	478
Exploration expenses for the year ended December 31, 2010	\$ 7,441	\$ 11,554	\$ 4,443	\$ 338	\$ 381	\$ 24,157

For the year ended December 31, 2009, exploration expenses were comprised of the following:

	Arapiraca Project	Aranzazu Mine	Non-core Projects	Total
Property option payments	\$ –	\$ –	\$ 159	\$ 159
Consulting	1,532	324	321	2,177
Drilling	1,084	1,887	227	3,198
Field administration	–	–	182	182
Supplies	145	47	28	220
Geological and assays	299	647	2	948
Land maintenance	198	–	99	297
Other	1,055	245	119	1,419
Salaries, wages and benefits	1,587	74	124	1,785
Travel	237	46	31	314
Exploration expenses for the year ended December 31, 2009	\$ 6,137	\$ 3,270	\$ 1,292	\$ 10,699

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Notes to the Consolidated Financial Statements

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20 CASH FLOW INFORMATION

a) Items not affecting cash:

	December 31, 2010	December 31, 2009
Depletion, amortization and accretion	\$ 24,384	\$ 3,768
Future income tax recovery	(6,899)	(1,841)
Deferred transaction costs expensed due to change in accounting policy (note 3(a))	1,000	-
Impairment charge - Sao Vicente Mine (note 13)	24,276	-
Impairment charge - resource properties	681	8,167
Writedown - inventory (note 8)	3,737	-
Unrealized gains	(897)	(408)
Change in other long-term liabilities	986	162
Issuance of shares for property option payments	-	64
Stock-based compensation	11,456	4,586
Other	(204)	-
	\$ 58,520	\$ 14,498

b) Changes in non-cash working capital:

	December 31, 2010	December 31, 2009
Accounts receivable	\$ (973)	\$ (85)
Inventory	(8,941)	5,018
Prepaid expenses and other current assets	(2,652)	860
Accounts payable and accrued liabilities	7,780	(1,757)
	\$ (4,786)	\$ 4,036

c) Supplemental cash flow information:

	December 31, 2010	December 31, 2009
Non-cash financing and investing activities consist of:		
Fair value of signing shares released from escrow	\$ -	\$ 2,144
Change on accounts payable as a result of investing activities	2,076	(717)
Fair value of brokers' warrants issued as a finance fee	-	4,227
Adjustment to the San Andres Mine purchase price allocation	4,737	-
Common shares issued as consideration for acquisitions	53,760	19,583
Interest paid	\$ 1,898	\$ 319
Taxes paid	\$ 6,022	\$ 1,096

Aura Minerals Inc.

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21 FINANCIAL INSTRUMENTS

During 2010, the Company entered into several forward currency contracts to hedge against the risk of an increase in the value of the Brazilian real versus the United States dollar. These forward currency contracts have been designated as cash flow hedges under Section 3865 of the CICA Handbook. Currency contracts totalling 64.9 million reais at an average rate of 2.0277 Brazilian real to the United States dollar were entered into to hedge forecast reais denominated expenditures against the variability of the United States dollar amount of those expenditures caused by changes in the currency exchange rates for August 2010 through to May 2012. The Company has designated the spot component of these contracts as cash flow hedges. The unsettled contracts as of December 31, 2010 total 45.7 million reais and include 34.7 million reais hedged for 2011 and 11.0 million reais for 2012.

The Company's derivative related assets as at December 31, 2010 consist of:

	December 31, 2010	December 31, 2009
Currency contracts:		
Forward contracts	\$ 4,212	\$ –
Less: Current portion	(3,198)	–
Long-term portion	\$ 1,014	\$ –

Unrealized gains recorded into other comprehensive income for the year ended December 31, 2010 totalled \$2,981,000 (2009 – \$nil). These gains have been included in other comprehensive income for the year, net of future income taxes of \$849,000. The Company recorded realized gains on derivative financial instruments of \$571,000 (2009 – \$nil) in mine operating expenses during the year ended December 31, 2010.

22 CAPITAL RISK MANAGEMENT

The Company's objectives in managing capital are to ensure sufficient liquidity is maintained in order to properly develop and operate its current projects and to pursue strategic growth initiatives, to ensure that externally imposed capital requirements related to any debt obligations are complied with, and to provide returns for shareholders and benefits to other stakeholders. In assessing the capital structure of the Company, management includes in its assessment the components of shareholders' equity, long-term debt, and cash and cash equivalents. The Company manages its capital structure in light of changes in economic conditions, the risk characteristics of the underlying assets, and the Company's liquidity requirements. To maintain or adjust the capital structure, the Company may be required to issue new shares or debt, re-pay existing debt, acquire or dispose of assets, or adjust amounts of certain investments.

In order to facilitate management of capital, the Company prepares annual budgets which are updated periodically if changes in the Company's business are considered to be significant. The Company's board of directors reviews and approves all operating and capital budgets as well as the entering into of any debt obligations, and any material transactions out of the ordinary course of business, including dispositions, acquisitions and other investments or divestitures. In order to maximize ongoing development efforts, the Company does not pay out dividends.

During 2010 and 2009, the Company issued certain promissory notes in connection with the Brazilian Mine Acquisition (note 4) and the San Andres Acquisition (note 5), respectively. These promissory notes do not contain any externally imposed financial covenants.

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23 FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Credit risk

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial contract. The Company's credit risk is limited to trade receivables in the ordinary course of business, the recovery of value added taxes, and the quality of its financial investments. As of December 31, 2010, the Company's financial assets include deposits in highly rated financial institutions, and the Company considers the risk of loss associated with these deposits to be low.

The Company is subject to concentrations of credit risk related to trade accounts receivable at the San Andres Mine, the Brazilian Mines and the Aranzazu Mine, as each location sells 100% of its sales to a single customer. As of December 31, 2010, 90% of the Company's trade accounts receivable balance is due from a single customer at the Aranzazu Mine. The Company is also subject to credit risk as of December 31, 2010 in relation to the recovery of value added taxes. Of the \$9,586,000 in value added taxes receivable at December 31, 2010, \$1,891,000 is due in Honduras, \$7,575,000 is due in Mexico, and \$120,000 is due in Canada. The Company considers these taxes recoverable to be current assets.

The Company is also subject to concentration of credit risk related to recoverable tax credits in Brazil, which are classified as long-term receivables and deposits. The recovery of these taxes only occurs upon the payment of federal income taxes. The Company records tax credits recoverable at fair value, based on discounted cash flows.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk through a rigorous planning and budgeting process, which is reviewed and updated on a regular basis, to help determine the funding requirements to support the Company's current operations and expansion and development plans and by managing its capital structure as described in note 22. The Company's objective is to ensure that there are sufficient committed financial resources to meet its short-term business requirements for a minimum of twelve months. Disclosure of the Company's contractual commitments is included in note 26, and the maturity of the Company's long-term debt is disclosed in notes 15 and 27.

c) Currency risk

The Company's operations are located in Honduras, Mexico, Brazil and Canada; therefore foreign exchange risk exposures arise from transactions denominated in foreign currencies. Although the Company's sales are denominated in United States dollars, certain of the Company's operating expenses are denominated in foreign currencies, primarily the Canadian dollar, Mexican peso, and the Brazilian real. The Company has limited exposure to the fluctuations of the Honduran lempira, as this currency is pegged to the United States dollar.

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include: cash and cash equivalents, accounts receivable, other non-current assets, and accounts payable and accrued liabilities denominated in foreign currencies. At December 31, 2010, the Company had cash and cash equivalents of \$36,477,000, of which \$19,987,000 was held in Canadian dollars, \$8,992,000 in United States dollars, \$3,796,000 in Honduran lempira, \$3,057,000 in Brazilian reais, and \$645,000 in Mexican pesos.

Due to the volatility of the Brazilian real against the United States dollar, the Company entered into forward contracts during 2010 to manage its risk against an increase in the value of the Brazilian real versus the United States dollar (note 21).

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23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

c) Currency risk (continued)

A 10% change in the United States dollar exchange rate to the currencies listed above on would have the following impact on the Company's earnings:

	10% decrease in the U.S. dollar	10% Increase in the U.S. dollar
Decrease (increase) in net loss and comprehensive loss for the year ended December 31, 2010	\$ (1,606)	\$ 1,314

d) Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents and the promissory notes payable. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. For the year ended December 31, 2010, a fluctuation in interest rates of 100 basis points (1 percent) would have impacted net loss and comprehensive loss for the year by \$14,000.

e) Commodity price risk

The Company is subject to price risk from fluctuations in market prices of gold, copper and other metals. Gold, copper and other metal prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control.

The profitability of the Company's operations is highly correlated to the market prices of these metals, as is the ability of the Company to develop its other properties. During 2010, the Company's only source of revenue was from the sale of gold at the Brazilian mines and the San Andres Mine, which are not subject to provisional price arrangements.

A 10% change in the average commodity price for gold for the year, with all other variables held constant, would result in an impact to the Company's 2010 net loss and comprehensive loss of \$14,300,000. Fluctuations in copper prices would not have materially affected the Company's results of operations.

f) Fair value estimation

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, advances and deposits, derivative assets, accounts payable and accrued liabilities, promissory notes payable, deferred purchase consideration payable, and other long-term liabilities. The carrying values of cash and cash equivalents, accounts receivable, advances and deposits, and accounts payable and accrued liabilities, approximate their fair values due to the relatively short-term nature of these amounts.

The Company classifies the fair value of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are: Level 1, which are inputs that are unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, which are inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly or indirectly; and Level 3, which are inputs for the asset or liability that are not based on observable market data.

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23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

f) Fair value estimation (continued)

The following table summarizes the fair value hierarchy, as of December 31, 2010:

	Available for sale	Held for trading	Loans and receivables	Other liabilities	Total fair value	Fair value hierarchy level
Financial Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 36,477	\$ -	\$ 36,477	n/a
Accounts receivable	-	-	11,393	-	11,393	n/a
Marketable securities	-	1,058	-	-	1,058	Level 1
Derivative assets ¹	4,212	-	-	-	4,212	Level 2
Other assets	-	-	13,315	-	13,315	n/a
	4,212	1,058	61,185	-	66,455	
Financial Liabilities						
Accounts payable and accrued liabilities	-	-	-	(32,443)	(32,443)	n/a
Promissory notes payable	-	-	-	(64,247)	(64,247)	n/a
Deferred purchase consideration payable	-	(22,312)	-	-	(22,312)	Level 3
Other long-term liabilities	-	-	-	(5,408)	(5,408)	n/a
	\$ 4,212	\$ (21,254)	\$ 61,185	\$ (102,098)	\$ (57,955)	

¹ Includes current portion of \$3,198,000 and long-term portion of \$1,014,000.

There were no material differences between the carrying value and fair value of long-term assets and liabilities as of December 31, 2010. The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy.

24 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2010 and 2009, the Company had no related party transactions, other than the Brazilian Mines Acquisition (note 4) and the San Andres Acquisition (note 5), which were purchased from Yamana Gold Inc. ("Yamana"). Yamana and the Company currently have one director in common, but as of the date the transaction was approved, had two directors in common, both of whom abstained from participating in any discussions regarding, and voting on the transactions. Subsequent to the year end, the Company restructured its contractual obligations with Yamana, as further described in note 27(a).

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25 SEGMENTED INFORMATION

The Company's reportable segments consist of geographical segments, being Canada (which is comprised of corporate administration activities), Honduras, Mexico, and Brazil.

The Company's total assets by segment as of December 31, 2010 and 2009 are as follows:

As at December 31, 2010	Canada	Honduras	Mexico	Brazil	Total
Total assets	\$ 38,561	\$ 124,775	\$ 139,769	\$ 200,752	\$ 503,857

As at December 31, 2009	Canada	Honduras	Mexico	Brazil	Total
Total assets	\$ 93,831	\$ 114,205	\$ 89,716	\$ 17,986	\$ 315,738

The Company's mine operating earnings and capital expenditure by segment for the year ended December 31, 2010 is as follows:

For the year ended December 31, 2010	Canada	Honduras	Mexico	Brazil	Total
Sales	\$ –	\$ 84,471	\$ –	\$ 79,181	\$ 163,652
Mine operating expenses ²	–	(42,018)	–	(75,699)	(117,717)
Depletion, amortization and accretion	–	(9,686)	–	(12,646)	(22,332)
Net smelter return royalties	–	(221)	–	–	(221)
Mine operating profit (loss)	\$ –	\$ 32,546	\$ –	\$ (9,164)	\$ 23,382
Capital expenditures ¹	\$ 1,581	\$ 17,926	\$ 31,985	\$ (2,467)	\$ 49,025
Resource property expenditure	\$ –	\$ –	\$ –	\$ 681	\$ 681

¹ Excludes capital additions acquired through business acquisitions and adjustments to purchase price allocations.

² Brazil includes writedown on inventory of \$3,737,000.

For the year ended December 31, 2009, the Company recorded sales of \$26,491,000, mine operating expenses of \$18,164,000, depletion, amortization and accretion of \$3,060,000 and net smelter return royalties of \$135,000 for mine operating profit of \$5,132,000, all of which related to Honduras, with the exception of \$35,000 in sales and \$23,000 in mine operating expenses, which related to Mexico.

26 CONTINGENCIES AND COMMITMENTS

a) Operating commitments

The Company has the following commitments for future minimum payments under operating leases:

2011	\$	502
2012		335
2013		26
	\$	863

As of December 31, 2010, the Company had committed to purchases for equipment and capital projects in process, as well as contractual commitments related to capital projects in process of \$2,556,000 at the Aranzazu Project and \$716,000 at the San Andres Mine.

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26 CONTINGENCIES AND COMMITMENTS *(continued)*

b) Royalties

- (i) Copper production from the Aranzazu Mine is subject to an underlying 1% NSR when during any calendar month the monthly average copper price as quoted by the London Metals Exchange equals or exceeds \$2.00 per pound.
- (ii) Gold sales from the San Andres Mine were subject to an NSR of 0.5% to a maximum of \$1,500,000, which was reached in the second quarter of 2010.

c) Contingencies

Certain conditions may exist as of the date of these financial statements which may result in a loss to the Company in the future when certain events occur or fail to occur. The Company assesses at each reporting date its loss contingencies related to ongoing legal proceedings by evaluating the likelihood of such proceedings, as well as the amounts claimed or expected to be claimed. If the assessment of such claims suggests that a loss is probable, and the amount can be reasonably estimated, then a provision for loss is recorded. When the contingent loss is unlikely, or when it is probable but the amount of the loss cannot be reasonably estimated, then details of the contingent loss are disclosed, if they are significant. Loss contingencies considered to be remote are generally not disclosed. Included in other long-term liabilities as of December 31, 2010 is a provision of \$822,000 for loss contingencies related to ongoing legal claims associated with the Brazilian Mines, which were assumed as part of the acquisition of these mines.

On October 25, 2010, an employee of Fagundes Construcao e Mineracao Ltda. ("Fagundes"), the mining contractor at the Company's Sao Francisco mine, was fatally injured in a two vehicle accident on the municipal road between the mine and the town of Pontes e Lacerda in Mato Grosso, Brazil. Another Fagundes employee was severely hurt and several others sustained non-life threatening injuries. The Fagundes employees were travelling to work for their regular shift when their bus and a Company vehicle collided. The accident is still being investigated, and the Company's liability, if any, cannot be determined at this time.

27 SUBSEQUENT EVENTS

a) Restructuring of contractual obligations

On March 3, 2011, the Company entered into a binding letter agreement with Yamana to restructure the contractual obligations owing to Yamana pursuant to the San Andres Mine Acquisition and the Brazilian Mines Acquisition. The Company's contractual obligations include a total of \$64,247,000 in promissory notes and a total of \$43,154,000 in deferred purchase consideration, as further described in notes 4, 5 and 15. Under the restructuring, these contractual obligations were paid and satisfied in full, and the related security was released, in consideration for:

- i) the issuance to Yamana of 19,056,113 common shares in the capital of the Company;
- ii) the payment to Yamana of \$5,000,000 within one month of the closing date of the debt restructuring, which the Company intends to pay on March 31, 2011; and

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27 SUBSEQUENT EVENTS *(continued)*

a) Restructuring of contractual obligations *(continued)*

- iii) the granting to Yamana of a net smelter return royalty (“NSR Royalty”) equal to 1.5% on the sales from the San Andres Mine, Sao Francisco Mine and Sao Vicente Mine, up to a cumulative royalty amount of \$16,000,000, commencing on March 1, 2013, provided that the cumulative amount will be extinguished by the payment in cash of: \$12,500,000 if paid on or before March 31, 2012; \$13,650,000 if paid after March 31, 2012, but on or before March 31, 2013; \$14,350,000 if paid after March 31, 2013, but on or before March 31, 2014; and, \$15,050,000 if paid after March 31, 2014, but on or before March 31, 2015, and adjusted by any payments made on account of the NSR Royalty.

The restructuring of contractual obligations was completed on March 18, 2011.

b) Credit facility

On March 18, 2011, the Company entered into an agreement with Barclays Bank PLC for a revolving credit facility (the “Credit Facility”) for up to \$25,000,000. The Credit Facility will be used for working capital purposes at the Aranzazu Mine and general corporate purposes.

The Credit Facility bears interest at LIBOR plus 2.75% and matures on June 30, 2013. The undrawn portion of the Credit Facility is also subject to a 1.0% per annum commitment fee, payable quarterly.

As a condition of the Credit Facility, the Company will enter into a program within thirty days of obtaining the Credit Facility to hedge a minimum of 6,000 tonnes of copper from the Aranzazu Mine between May 2011 and the maturity date. The instruments utilized by the Company to implement the program will take the form of zero-cost put/call collars.

Security on the Credit Facility is provided in the form of a guarantee by the Company, a pledge of the shares of the subsidiaries holding the Aranzazu Mine, and a pledge over the benefits of hedging agreements.

c) Subsequent changes in stock options and brokers’ warrants

For the period from January 1, 2011 to March 25, 2011, 320,000 stock options were granted to new employees, 9,750 stock options were exercised, 8,000 stock options were forfeited and 686,738 brokers’ warrants were exercised.