



AURA GOLD INC.

UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2006

**AURA GOLD INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**INTERIM CONSOLIDATED BALANCE SHEETS**

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 3)	\$ 7,749,666	\$ 29,102
Amounts receivable, prepaids and other	184,171	2,895
	7,933,837	31,997
<b>MINERAL INTERESTS</b> (Note 5)	1,863,950	-
<b>EQUIPMENT</b> (Note 4)	161,327	-
	\$ 9,959,114	\$ 31,997
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 307,864	\$ 10,836
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 6(b))	9,330,494	353,854
<b>WARRANTS</b> (Note 6(c))	1,661,000	-
<b>STOCK OPTIONS</b> (Note 6(d))	1,986,400	-
<b>DEFICIT</b>	(3,326,644)	(332,693)
	9,651,250	21,161
	\$ 9,959,114	\$ 31,997

**NATURE OF OPERATIONS AND CONTINUANCE** (Note 1)

**COMMITMENTS** (Note 5 and Note 10)

**SUBSEQUENT EVENTS** (Note 11)

APPROVED ON BEHALF OF THE BOARD:

"Victor H. Bradley"

\_\_\_\_\_  
SIGNED; DIRECTOR

"Patrick J. Mars"

\_\_\_\_\_  
SIGNED; DIRECTOR

Unaudited; see accompanying notes to the interim consolidated financial statements

**AURA GOLD INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**(UNAUDITED)**

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
<b>EXPENSES</b>				
Stock-based compensation	\$ 1,986,400	\$ -	\$ 1,986,400	\$ -
Travel	122,219	-	293,618	-
Management and consulting fees	82,500	-	237,740	-
Investor relations	48,320	-	148,521	-
Office and general	53,635	5,224	118,238	5,224
General exploration	9,419	-	98,167	-
Professional fees	14,320	750	62,902	2,861
Salaries and benefits	39,830	-	39,830	-
Occupancy costs	36,733	-	38,636	-
Filing, listing and transfer agent fees	4,536	8,807	33,665	11,981
Foreign exchange	(2,456)	-	12,539	-
Amortization	6,840	-	7,098	-
Insurance	4,612	-	5,355	-
Loss before the undernoted	2,406,908	14,781	3,082,709	20,066
Interest income	(32,632)	-	(88,758)	-
<b>NET LOSS FOR THE PERIOD</b>	<b>2,374,276</b>	<b>14,781</b>	<b>2,993,951</b>	<b>20,066</b>
<b>DEFICIT, beginning of period</b>	<b>952,368</b>	<b>308,222</b>	<b>332,693</b>	<b>302,937</b>
<b>DEFICIT, end of period</b>	<b>\$ 3,326,644</b>	<b>\$ 323,003</b>	<b>\$ 3,326,644</b>	<b>\$ 323,003</b>
<b>NET LOSS PER SHARE</b>				
basic and diluted	\$ 0.05	\$ 0.01	\$ 0.07	\$ 0.03
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>52,630,718</b>	<b>1,180,718</b>	<b>41,209,987</b>	<b>783,020</b>

Unaudited; see accompanying notes to the interim consolidated financial statements

**AURA GOLD INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
<b>CASH FLOWS PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (2,374,276)	\$ (14,781)	\$ (2,993,951)	\$ (20,066)
Add:				
Amortization	6,840	-	7,098	-
Stock-based compensation	1,986,400	-	1,986,400	-
Changes in non-cash working capital items:				
Amounts receivable, prepaids and other	(49,541)	1,736	(181,276)	(1,264)
Accounts payable and accrued liabilities	(27,021)	13,301	240,485	10,351
	(457,598)	256	(941,244)	(10,979)
<b>INVESTING ACTIVITIES</b>				
Mineral interests	(642,801)	-	(1,317,407)	-
Equipment	(103,619)	-	(168,425)	-
	(746,420)	-	(1,485,832)	-
<b>FINANCING ACTIVITIES</b>				
Issuance of shares, net of costs	(60,218)	-	10,147,640	100,000
Advances	-	-	-	(33,328)
	(60,218)	-	10,147,640	66,672
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,264,236)	256	7,720,564	55,693
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	9,013,902	55,437	29,102	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 7,749,666	\$ 55,693	\$ 7,749,666	\$ 55,693
<b>SUPPLEMENTAL INFORMATION</b>				
Interest paid	\$ -	\$ -	\$ -	\$ -
Common shares issued for mineral interests	-	-	490,000	-
Change in accrued exploration expenditures	(11,429)	-	56,543	-
Warrants issued for services rendered	-	-	486,000	-
Amortization included in deferred exploration cost	1,268	-	5,629	-

Unaudited; see accompanying notes to the interim consolidated financial statements

**AURA GOLD INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

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**1. NATURE OF OPERATIONS AND CONTINUANCE**

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They do not include all the information and disclosures required by Canadian GAAP for annual financial statements. The preparation of these interim consolidated financial statements is based on accounting principles and practices consistent with those used in the annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2006. For further information, see the financial statements including the notes thereto for the year ended December 31, 2005.

On March 15, 2006, shareholders of the Company approved a name change for the Company from "Canadian Baldwin Resources Limited" to "Aura Gold Inc.". The Company is in the process of exploring its exploration properties for mineral resources in South America and has not determined whether the properties contain economically recoverable reserves. The recovery of the amounts shown for the exploration properties and the related deferred expenditures is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the exploration and development, and upon future profitable production.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration 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, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. All of the Company's mining assets 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.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non compliance with regulatory requirements.

As at September 30, 2006 the Company had cash and cash equivalents of \$7,749,666 and working capital of \$7,625,973. Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and to meet its liabilities for the ensuing year as they fall due, to fund cash payments as discussed in Notes 5 and 11, and to fund current planned exploration programs. Longer term, the Company's ability to continue operations and fund its exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty there is may be some doubt in the future about the ability of the Company to continue as a going concern. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

**AURA GOLD INC.  
(AN EXPLORATION STAGE COMPANY)  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

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**2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles, and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Aura Gold Mineração Ltda. All material inter-company balances and transactions have been eliminated. All references to the Company should be treated as references to the Company and its subsidiary.

**Cash and cash equivalents**

Cash and cash equivalents include balances with banks and short term investments with original maturities of 90 days or less.

**Translation of foreign currencies**

Monetary assets and liabilities are translated at the rate of exchange prevailing at the year-end; deferred exploration expenditures are translated at the rates prevailing at the transaction dates; and revenues and expenses are translated at average rates of exchange during the year. Exchange gains and losses are included in the statements of operations and deficit.

**Asset retirement obligations**

The Company is following the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, "Asset Retirement Obligations". Under this standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The impact of adopting this accounting standard has no effect on these statements as of September 30, 2006.

**Equipment**

Depreciation of vehicles, furniture, computers, software, machinery and equipment is provided on a declining-balance basis over their estimated useful lives at annual rates between 20% and 100%.

**Stock-based compensation**

The CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments requires that compensation for option awards to employees be recognized in the financial statements at fair value for options granted in fiscal years beginning on or after January 1, 2004. The Company, as permitted by CICA Handbook Section 3870, has adopted the section for new option awards granted on or after June 1, 2003. Accordingly, a fair value compensation expense is reported for any options that are granted and vest during the year, with a corresponding credit to stock options in the equity section of the balance sheet. When stock options are exercised the fair value is transferred to capital stock.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made by the Company include factors affecting the recoverability of mineral interests, valuation of stock-based compensation and warrants and future tax assets and liabilities.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

**3. CASH AND CASH EQUIVALENTS**

As of September 30, 2006, cash and cash equivalents consisted of:

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Cash	\$ 1,990,081	\$ 29,102
Guaranteed investment certificate, discount note and banker's acceptance (with an average interest rate of 4.10%)	5,759,585	-
	<b>\$ 7,749,666</b>	<b>\$ 29,102</b>

**4. EQUIPMENT**

	Cost	Accumulated Amortization	Net Book Value September 30, 2006 (Unaudited)	Net Book Value December 31, 2005 (Audited)
Vehicles	\$ 81,020	\$ (9,115)	\$ 71,905	\$ -
Machinery and equipment	25,521	(1,496)	24,025	-
Furniture	19,227	(1,860)	17,367	-
Computer equipment	48,831	(5,493)	43,338	-
Software	6,587	(1,895)	4,692	-
	<b>\$ 181,186</b>	<b>\$ (19,859)</b>	<b>\$ 161,327</b>	<b>\$ -</b>

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**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

**5. MINERAL INTERESTS**

As at September 30, 2006 the Company had incurred acquisition costs and exploration and development expenditures on its mineral properties as follows:

	Gradaus Project	Cumaru Project	Inaja Project	Northern Carajas Project	Chile Project	Total
Balance, December 31, 2005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions during the period						
Acquisition costs	112,642	206,174	596,899	-	74,191	989,906
Consulting	47,749	52,050	20,823	1,395	569	122,586
Geological and assays	66,426	65,969	1,306	-	-	133,701
Legal and agreement fees	19,226	32,972	1,812	1,720	8,404	64,134
Exploration support	15,656	15,397	3,884	-	911	35,848
Travel and accommodation	56,363	117,427	25,877	-	2,800	202,467
Property tax	1,496	19,238	100,629	-	-	121,363
Field supplies and equipment	14,328	14,758	918	-	-	30,004
Amortization	-	5,629	-	-	-	5,629
Salaries, benefits and wages	10,543	8,316	-	-	-	18,859
Project management	3,921	3,921	4,182	1,673	-	13,697
Due diligence	-	2,363	-	-	-	2,363
Geophysical	-	-	-	1,324	-	1,324
Land maintenance	-	-	-	-	21,869	21,869
	\$ 348,350	\$ 544,214	\$ 756,330	\$ 6,112	\$ 108,744	\$ 1,763,750
Project development						100,200
Balance, September 30, 2006						\$ 1,863,950

**(a) Gradaus Project, Brazil**

The Company entered into an option agreement to acquire a 100% interest in a mining license and two mineral exploration licences covering 1,635.70 hectares, located in the State of Para, Brazil. To exercise this option, the Company must complete the following:

- (i) Pay US\$25,000 to the optionor on execution of this agreement. (Paid)
- (ii) Issue a total of 500,000 common shares to the optionor, as follows:
  - 100,000 common shares on or before January 1, 2006 (Issued and valued at \$20,000)
  - 100,000 common shares on or before July 1, 2006 (Issued and valued at \$20,000)
  - 100,000 common shares on or before January 1, 2007
  - 100,000 common shares on or before July 1, 2007
  - 100,000 common shares on or before January 1, 2008

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

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**5. MINERAL INTERESTS (continued)**

- (iii) Make cash payments totaling US\$510,000 to the optionor, as follows:
  - US\$25,000 on or before July 1, 2006 (Paid)
  - US\$50,000 on or before January 1, 2007
  - US\$50,000 on or before July 1, 2007
  - US\$100,000 on or before January 1, 2008
  - US \$135,000 on or before July 1, 2008
  - US \$150,000 on or before January 1, 2009
- (iv) The payment of US\$1.00 per ounce of proven and probable reserve as determined by a positive feasibility study on the property prepared in accordance with National Instrument 43-101 of the Canadian Securities Administrators.

The Company must complete US\$1,500,000 in exploration expenditures on the property within a three-year period in order to execute the agreement with US\$250,000 to be expended within the first year.

The optionor has retained a 2% net smelter royalty in the property that may be purchased by the Company for US\$4,000,000.

**(b) Cumaru Project, Brazil**

The Company entered into an option agreement on April 3, 2006, to acquire a 70% interest in four mineral exploration licences covering 11,527.94 hectares, located in the State of Para, and the right to acquire a 70% interest in three Garimpeiro Permits, in process of transfer to the optionor, covering 21,300 hectares and one exploration licence, for which application has been made, covering 1,472.38 hectares, as follows:

- (i) Work requirement
  - The Company must incur an aggregate of US\$3,000,000 in exploration expenditure on the properties within three years of entering into the agreement.
  - US\$250,000 on or before April 3, 2007
  - An additional US\$1,250,000 before April 3, 2008
  - An additional US\$1,500,000 on or before April 3, 2009
- (ii) Issue 1,000,000 common shares of the Company to the optionor (issued and valued at \$200,000).
- (iii) Included in the above \$3,000,000 of exploration expenditures, is the requirement to incur \$1,000,000 in exploration expenditures to satisfy a condition of the underlying agreement between the optionor and another party.

On exercise of the option, the Company and the optionor shall incorporate a company in Brazil in their respective interests for further development of the properties.

The original vendor has retained a 1.5% net smelter royalty in the property that may be purchased by the Company for US\$1,250,000.

Subsequent to September 30, 2006, the Company renegotiated the above agreement to acquire a 100% interest in the project. (Refer to Note 11(a))

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**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

**5. MINERAL INTERESTS (continued)**

**(c) Inaja Project, Brazil**

The Company has entered into six separate option agreements to acquire a 100% interest in 23 mineral claims covering an area in aggregate of 122,408 ha located in the State of Para, Brazil, and the Company has also acquired the Fonseca Property, consisting of 10 claims totalling 10,000 hectares for a single payment of US\$10,000.

Property	Number of Claims	Area
AGS Property	8	72,185 hectares
JN Property	1	14,225 hectares
EM Property	1	8,834 hectares
Rio Negro Properties	10	8,542 hectares
Forquilha Pit	1	6,914 hectares
Carapato Pit	2	11,708 hectares
Fonseco Property	10	10,000 hectares
	<b>33</b>	<b>132,408</b>

To exercise these options, the Company must complete the following:

- (i) Pay US\$125,000 (paid) and issue 500,000 common shares to the optionors of the JN Property upon execution of the agreement (issued and valued at \$100,000) and issue 250,000 common shares to the optionors of the AGS property upon execution of the agreement (issued and valued at \$50,000).
- (ii) Issue 100,000 common shares on each of June 1 and December 1, 2006 to 2010 for an aggregate of 1,000,000 common shares. (Issued 100,000 shares and valued at \$20,000)
- (iii) Make cash payments totaling US\$1,950,000 to the optionors as follows:
  - US\$135,000 on or before June 1/30, 2006 (Paid)
  - US\$170,000 on or before December 1/31, 2006
  - US\$272,500 on or before June 1/30, 2007
  - US\$310,000 on or before December 1/31, 2007
  - US\$547,500 on or before June 1/30, 2008
  - US\$355,000 on or before December 1/31, 2008
  - US\$ 85,000 on or before June 1/30, 2009
  - US\$ 25,000 on or before December 1, 2009
  - US\$ 25,000 on or before June 1, 2010
  - US\$ 25,000 on or before December 1, 2010
- (iv) The optionors have retained varying royalties. On the AGS Property, a 2.0% to 3.0% sliding scale net smelter royalty, which royalty may be purchased for US\$1,000,000 for each 1%, payable as calculated on the commencement of production. On each of the Forquilha and Carapato Pits, a 1.5% net smelter royalty, which may each be purchased for US\$1,500,000.
- (v) The Company paid US\$40,000 and issued 400,000 common shares valued at \$80,000 as finder's fees in respect of the Inaja option agreements.

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**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

**5. MINERAL INTERESTS (continued)**

**(d)** North Carajas and Far North Carajas, Brazil

Pursuant to an agreement with Santa Elina Mines Corporation, dated January 1, 2006, the Company was assigned a 100% interest in 54 mineral claims covering an area of 430,000 hectares in the State of Para, Brazil, in consideration for a 2% net smelter royalty from any future production on these properties. (See Note 6(b)(ii)).

**(e)** Other Property Project

Pursuant to the same agreement with Santa Elina Mines Corporation, described in Note 5(d) above, the Company was assigned a 100% interest in 20 mineral claims covering an area of 187,000 hectares in the State of Para, Brazil, in consideration for a 2% net smelter royalty from any future production on these properties. (See Note 6(b)(ii)).

**(f)** Chile Project

The Company signed an agreement with the Paleocene Mining Syndicate ("Paleocene") to earn a 100% interest in four mining concessions totaling 19,300 ha in the Antofagasta Region of northern Chile.

Aura Gold acquired a 45% interest in the claim group by making a cash payment of US\$65,000 to Paleocene. Aura can earn an additional 45% interest by spending US\$250,000 on the properties by December 1, 2007. The remaining 10% can be acquired by issuing Aura Gold shares valued at \$1,000,000 until December 31, 2009. The value of shares required to exercise this right increases by US\$500,000, beginning January 1, 2010.

An officer of the Company holds a 25% interest in Paleocene.

**6. CAPITAL STOCK**

**(a) Authorized**

Unlimited number of common shares

**(b) Issued**

52,630,718 common shares

	Number of Shares	Amount
Balance, December 31, 2005 (audited)	1,180,718	\$ 353,854
Private placement (i)	9,000,000	270,000
Private placement (ii)	7,000,000	700,000
Warrant valuation (ii)	-	(70,000)
Private placement (iii)	16,000,000	3,200,000
Private placement (iv)	17,000,000	6,800,000
Warrant valuation (iv)	-	(1,105,000)
Issued for interest in Gradaus Project (Note 5(a)(ii))	200,000	40,000
Issued for interest in Cumaru Project (Note 5(b)(ii))	1,000,000	200,000
Issued for interest in Inaja Project (Note 5(c)(i)(ii) and (v))	1,250,000	250,000
Share issue costs - Cash	-	(822,360)
Share issue costs - Warrants (iii) and (iv)	-	(486,000)
<b>Balance, September 30, 2006 (unaudited)</b>	<b>52,630,718</b>	<b>\$ 9,330,494</b>

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**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

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**6. CAPITAL STOCK (continued)**

During the nine month period ended September 30, 2006, the Company completed the following private placements:

- (i) On January 5, 2006, the Company closed a private placement that consisted of the sale of 9,000,000 common shares at \$0.03 per share for gross proceeds of \$270,000. The private placement was sold to a founding investor group, a part of which includes the new management team for the Company. As at September 30, 2006, 3,750,000 common shares of this issue are held in escrow, and subject to release in accordance with the rules of the Toronto Stock Exchange.
- (ii) On January 5, 2006, the Company closed a private placement that consisted of the sale of 7,000,000 units at \$0.10 cash per unit for gross cash proceeds of \$700,000 to Santa Elina Mines Corporation. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for \$0.20 until December 22, 2007. The fair value of each warrant issued was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 3.9%; and an expected life of two years. The warrants were assigned a fair value of \$70,000. As at September 30, 2006, 5,250,000 common shares of this issue are held in escrow, and subject to release in accordance with the rules of the Toronto Stock Exchange.

Concurrent with this private placement, entities related to Santa Elina Mines agreed to transfer a Brazilian property package to a subsidiary of the Company consisting of 74 properties covering 617,472 hectares and access to all databases regarding these properties in consideration for a 2% net smelter royalty from any future production on these properties. All of these properties are located in the Carajas Region of Para State, Brazil. Pursuant to the terms of the subscription agreement, Santa Elina Mines has a pre-emptive right to participate in any and all equity financings on a pro rata basis to its non-diluted share ownership position as long as Santa Elina Mines owns at least 10% of the issued and outstanding shares of the Company.

- (iii) On January 5, February 21, March 31, and April 12, 2006 the Company closed four tranches of a private placement that consisted of the sale of 16,000,000 common shares at \$0.20 per share for gross proceeds of \$3,200,000 to a group of private and institutional investors. A finder's fee consisting of 1,500,000 common share purchase warrants was paid to a finder. Each warrant entitles the holder to acquire one common share of the Company for \$0.20 until December 22, 2007. The fair value of each warrant issued was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 3.9%; and an expected life of two years. The warrants were assigned a fair value of \$163,000. As at September 30, 2006, 243,750 common shares of this issue are held in escrow, and subject to release in accordance with the rules of the Toronto Stock Exchange.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

**6. CAPITAL STOCK (continued)**

- (iv) On May 10, and May 26, 2006, three tranches of a private placement consisting of the sale of 17,000,000 Units was completed at a price of \$0.40 per Unit for aggregate gross proceeds of \$6,800,000. Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for \$0.50 until November 30, 2007. The fair value of each warrant issued was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 4.08%; and an expected life of 18 months. The warrants were assigned a fair value of \$1,105,000. In conjunction with the financing, finders were paid a cash finder fee of 7.0% of the gross proceeds of the financing (\$490,000), a cash structuring fee of 1.0% of the gross proceeds of the financing (\$70,000) and finders were issued 1,700,000 broker warrants. Each broker warrant entitles the holder to acquire one Unit for \$0.40 until November 30, 2007. The fair value of each warrant issued was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 4.07%; and an expected life of 18 months. The warrants were assigned a fair value of \$323,000.

**(c) Warrants**

A continuity of warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2005 (audited)	-	\$ -
Issued (Note 6((b)(ii))	3,500,000	\$ 0.20
Issued (Note 6((b)(iii))	1,500,000	\$ 0.20
Issued (Note 6((b)(iv))	8,500,000	\$ 0.50
Issued (Note 6((b)(iv))	1,700,000	\$ 0.40
<b>Balance, September 30, 2006 (unaudited)</b>	<b>15,200,000</b>	<b>\$ 0.39</b>

As at September 30, 2006, the following warrants were issued and outstanding:

Expiry Date	Fair Value	Number of Warrants	Exercise Price
December 22, 2007	\$ 233,000	5,000,000	\$ 0.20
November 30, 2007	1,105,000	8,500,000	\$ 0.50
November 30, 2007	323,000	1,700,000	\$ 0.40
<b>Balance, September 30, 2006 (unaudited)</b>	<b>\$ 1,661,000</b>	<b>15,200,000</b>	

**AURA GOLD INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

**6. CAPITAL STOCK (continued)**

**(d) Stock Options**

At the annual and special meeting of shareholders held on March 15, 2006, shareholders approved a stock option plan whereby an aggregate number of 6,000,000 common shares is reserved for issuance under the stock option plan. The options are non-assignable and may be granted for a term not exceeding five years. The exercise price is fixed by the board of directors of the Company at the time of grant, subject to all applicable regulatory requirements.

On July 25, 2006, the Company granted stock options that vest immediately upon grant, to acquire up to 5,200,000 common shares at \$0.50 per share on or before July 25, 2011, to certain of the Company's directors, officers and consultants.

The fair value of each option granted was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 4.5%; and an expected life of 5 years. The options were assigned a fair value of \$1,986,400.

A continuity of stock options is as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance, December 31, 2005 (audited)	-	\$ -
Issued	5,200,000	\$ 0.50
Balance, September 30, 2006 (unaudited)	5,200,000	\$ 0.50

As at September 30, 2006, the following options were issued and outstanding:

Expiry Date	Fair Value	Number of Stock Options	Exercise Price
July 25, 2011	\$ 1,986,400	5,200,000	\$ 0.50

**7. INCOME TAXES**

The Company utilizes the asset and liability method of accounting for incomes taxes. The estimated taxable income for the period is \$Nil. Based upon the level of historical taxable income, it cannot be reasonably determined if the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities. Consequently, the future recovery or loss arising from differences in tax values and accounting values have been reduced by an equivalent estimated taxable temporary difference valuation allowance. This estimated taxable temporary difference valuation allowance will be adjusted in the period that it can be determined that it is more likely than not that some or all of the future tax assets or future tax liabilities will be realized.

For further information about the Company's losses for tax purposes, refer to the audited December 31, 2005 financial statements. The benefits of these losses and the estimated loss for the period are not recognized in these financial statements.

**AURA GOLD INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

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**8. RELATED PARTY TRANSACTIONS**

- (a) Included in accounts payable and accrued liabilities as at September 30, 2006 is \$NIL (December 31, 2005 -\$4,836) owing to a corporation controlled by a former officer and director of the Company for certain expenditures incurred by the corporation on behalf of the Company.
- (b) A director and officer of the Company and two directors of the Company are also directors of the optionor of the Cumaru Project, described in Note 5(b).
- (c) An individual related to the President of the Company, was paid \$49,557 for design services relating to the Company's website, corporate graphics and investor relations material.
- (d) Officers, directors and corporations associated with directors of the Company, subscribed for a total of 4,825,000 common shares for gross proceeds of \$200,000 pursuant to the private placements described in Notes 6(b)(i) and (iii).
- (e) An officer of the Company holds an interest in the Chile Project as described in Note 5(f).
- (f) Included in accounts payable and accrued liabilities as at September 30, 2006 is \$67,149 (December 31, 2005 -\$NIL) owing to certain directors and officers of the Company.

The above transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

**9. SEGMENTED INFORMATION**

The Company has one operating segment, which is the exploration and development of exploration properties. Geographic segmentation of the Company's assets are as follows: Canada - \$7,836,520 (December 31, 2005 - \$31,997) and South America - \$2,122,594 (December 31, 2005 - \$Nil).

Substantially all of the Company's operating expenses are incurred in Canada. All exploration expenditures are incurred in South America.

**10. COMMITMENTS**

The Company leases its office space under a lease agreement which expires on September 30, 2011.

Annual lease payment under the agreement are as follows for the years ending:

December 31, 2006	\$	21,067
December 31, 2007		84,269
December 31, 2008		84,269
December 31, 2009		84,269
December 31, 2010		84,269
December 31, 2011		<u>63,202</u>
	\$	<u>421,345</u>

**AURA GOLD INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

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**11. SUBSEQUENT EVENTS**

- (a) The Company renegotiated the agreement with Yamana Gold Inc. ("Yamana") concerning the Cumaru property in Para State, north-central Brazil. The Company will now acquire 100% of the property and will fund an underlying work commitment of US\$1,000,000 up to July 2008.

As consideration for this purchase, the Company will issue an additional 6,000,000 common shares to Yamana which will then hold a total of 7,000,000 shares representing approximately an 11.9% interest in the Company. The renegotiated agreement is subject to definitive documentation and regulatory approval.

This agreement replaces the option agreement that allowed the Company to earn a 70% interest in the Cumaru property by spending US\$3,000,000 by January 2009, as described in Note 5(b). The property is subject to a 1.5% net smelter royalty held by a previous landowner, which may be purchased at any time for US\$1,250,000.

- (b) The Company issued 650,000 common shares for proceeds of \$130,000 on the exercise of share purchase warrants.