



La Mancha Resources Inc.

Policy on Ongoing Operations and Investment in Sudan

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La Mancha became involved in Sudan in late 2006 when we purchased the gold assets of Areva, which included the Hassai gold mine in Sudan, along with assets in Ivory Coast and Australia.

Sudan is presently the focus of worldwide attention due to strife in its Darfur region. In light of these events, it is La Mancha's responsibility to monitor the situation and measure the pertinence of our presence in the country. We believe that, at this time, La Mancha's presence in Sudan is beneficial for the country and its population, which justifies our intention to continue operating in Sudan. This document details the extent of La Mancha's presence in Sudan and explains our influence on its peoples and their economic development. It also sets out the criteria determining our future course of action in Sudan.

1. BACKGROUND INFORMATION ON THE CRISIS IN SUDAN

Darfur is a large area, 256,000 square kilometres in size that, constitutes the western region of Sudan. Darfur is home to an estimated five million people made up of a complex tribal mix. The region has been prone to drought and desertification, intensifying demands on its more fertile lands. In recent decades, areas of Darfur have been subject to sporadic inter-tribal clashes over use of resources.

In 2003, conflict broke out between Government of Sudan forces, allied Janjaweed militia and other armed rebel groups. Claiming the region was being neglected by Khartoum and that the government was oppressing black Africans in favor of Arabs¹, the rebel groups attacked government installations, causing the government to respond by taking military actions. Since the fighting began, more than 200,000 people are estimated to have died and at least 2 million to have been displaced from their homes in Darfur.²

On July 30, 2004, the UN Security Council adopted Resolution 1556, the first of many resolutions aimed at facilitating international aid to Darfur and easing the crisis. The Security Council has expressed its "grave concern at the ongoing humanitarian crisis and widespread humanitarian

¹ Sudan's Darfur Conflict, published by BBC News on August 1, 2007, accessed on September 4, 2007

² The United Nations and Darfur, published by United Nations Department of Public Information in August 2007, accessed on September 3, 2007

violations” and called upon the Sudanese government to fulfill its commitment to disarm the Janjaweed militias and apprehend and bring to justice Janjaweed leaders. The latest diplomatic developments took place on July 31, 2007, when the United Nations Security Council passed Resolution 1769 calling for the deployment of a 26,000-strong United Nation-African Union hybrid force with a Chapter VII mandate authorizing the use of force and a mission of assisting the implementation of the Darfur peace agreement³.

La Mancha is keenly aware of and deeply concerned by the ongoing humanitarian crisis in Darfur. We wholly support the UN’s efforts and are deeply committed to being a positive force for the people of Sudan, both now and in the future.

2. A SNAPSHOT OF THE HASSAI MINE

2.1 Ownership

The Hassai gold mine is a joint venture between the Sudanese government (56%), independent French interests (4%) and La Mancha (40%) through a wholly-owned subsidiary.

The joint venture is run in accordance with a shareholders’ agreement signed in 1992. The agreement is typical of such operations worldwide, and governs, among other things, the following aspects of the operation:

- ❖ Appointments to key operating positions;
- ❖ Dividend payments (amount and timing);
- ❖ New capital investment in the mine;
- ❖ Sale of ownership (each party has a right of first refusal); and
- ❖ Funding of regional development (see below, under “A RESPONSIBLE APPROACH”).



³ Darfur, www.genocideintervention.net, accessed on September 5, 2007

2.2 Operation

The Hassai gold mine has been in operation since 1992, and is presently Sudan's only producing mine. The open pit/heap leach operation has generated over 2 million ounces of gold to date. Forecast production for 2007 is 110,000 ounces.

As of December 31, 2006, the mine had proven and Probable Reserves of more than 579,000 ounces representing approximately five years of additional production. The exploration potential in the area is excellent, and the mine life could be extended significantly.

The Hassai mine employs over 1,400 Sudanese nationals consisting of 1,219 local workers and 185 contractor employees, as well as 14 expatriates.

2.3 Regional Economic and Social Impact

The Hassai mine lies in the red sea desert of eastern Sudan (some 1400km Northeast of the Darfour region), and it acts as the predominant source of economic activity of the region. It is the only industrial complex and massive employer in a 100 km radius.

Eastern Sudan is a region that has suffered chronic food insecurity and poverty caused by a series of droughts during the 1980s and 1990s, as well as substantial loss of livestock and grazing land as a result of the construction of the Aswan dam. The region is also vulnerable to complex emergencies, including conflict, natural disasters and flooding.

About half the local employees live on site at the mine camp and travel home in accordance with their schedule, while the other half belongs to nearby villages. On average, Hassai workers earn twice as much as the average Sudanese and over four times the minimum wage.



The mine now represents the totality of the economic activity in region and has now become vital to the survival of the surrounding villages.

3. A RESPONSIBLE APPROACH

In light of the severity and complexity of the humanitarian crisis taking place in Darfur, La Mancha has adopted a pro-active approach of continuously assessing the impact and consequences of our presence in Sudan. Our aim is to protect the interests of our shareholders while ensuring a responsible approach to Sudan's complex situation.

In addition to the traditional profitability concerns of widely-held corporations, La Mancha has retained two criteria as the basis for determining the pertinence of continuing our operations in Sudan. These are:

Criteria #1: Does our presence contribute to the humanitarian crisis taking place in Darfur? and

Criteria #2: Does our presence benefit the people of Sudan in general?

3.1 Current Status of Criteria #1: Does our presence contribute to the humanitarian crisis taking place in Darfur?

In light of the current situation in Sudan, the fact that the Hassai mine provides the government of Sudan with revenues is of concern to La Mancha. We take this very seriously. Consequently, we monitor our possible courses of action on an ongoing basis.

Other international public corporations doing business in Sudan have elected to close their operations or move out of the country to protest the situation in Darfur. As a minority partner in the joint venture that operates the Hassai mine, La Mancha does not have the ability to shut down the operation. Furthermore, the option of moving out of the country does not apply given that the mine is an immovable asset. Consequently, our only alternatives are to sell our 40% interest in the mine or to remain as a partner in the mine.

3.1.1 The impact of selling our interest

We have concluded that rather than creating economic pressure on the government and providing an opportunity to influence the situation in Darfur, selling our interest in the mine would have the opposite effect. Because the mine is profitable, it is reasonable to assume that should La Mancha divest, the government would exercise its right of first refusal on the sale of our interest,



thereby increasing their interest from the 56% to 96%. Given that:

- ❖ after 15 years of operations, the local work force, which now represents more than 95% of total workers on site, has gained significant expertise and experience; and
- ❖ the technology used to operate the mine is broadly available, and does not depend on La Mancha's presence at the mine;

it is reasonable to assume that the government would continue to operate the mine at current levels of profitability, thereby substantially increasing their share of revenues.

3.1.2 The impact of remaining in Sudan

La Mancha's sustained presence in Sudan as a shareholder in the Hassai mine enables us to benefit the people of Sudan as described below in the analysis of Criteria #2. At the same time, it allows us fulfill our fiduciary duty to our shareholders as a public company.

3.2 Current Status of Criteria #2: Does our presence benefit the people of Sudan in general?

La Mancha believes that our participation in the Hassai mine operation has benefited and continues to benefit those working at the mine, their families and the broader population through the application of international "best practice" standards for worker health and safety and environmental management, and the establishment, maintenance and growth of the regional development fund. Furthermore, La Mancha's policies are such that notable benefits have accrued to the Beja, recognized as one of Sudan's marginalized peoples.

3.2.1 Benefits to the Beja Tribe

The region surrounding the Hassai mine is mainly populated by members of the Beja tribe, a semi-nomadic people who are considered by the United Nations as historically marginalized by the central government⁴.

The Beja tribe represents 6% of the Sudanese population.⁵ Due to the absence of government subsidies and complete withdrawal of public support in the social sector, the Beja have been left with no option but to live in the slums and margins of big cities like Sudan Port. Moreover, their



⁴ Third periodic report of the United Nations High Commissioner for Human Rights on the human rights situation in the Sudan

⁵ Country Profile, United Nations Office on Drugs and Crime, www.unodc.org, accessed on September 5, 2007

situation as urban poor makes them unable to pay school fees and therefore their children have no access to formal education.⁶

La Mancha (and our predecessor Areva) has a policy of using qualifications, skills and experience as the only basis for hiring, and of providing equal opportunity for employment to anybody irrespective of gender, religion or ethnicity. We establish regular training programs to promote access to skill development and to particular specialized members to join the mine's work force and provided them with access to on-site training programs and the opportunity to gain expertise and experience.

Table 3.2.1

Category Level	Beja workers %	Salary as a multiple of min wage
1	56%	2.1X
2	17%	2.4X
3	3%	2.9X
4	6%	3.0X
5	2%	3.9X
6	2%	4.0X
7	9%	5.0X
8	1%	6.0X
10	1%	10X
12	1%	25X
Sudanese minimum wage		932

The Hassai mine employs 603 workers from nearby Beja villages. Although the Beja workers were initially unskilled before working at the mine site, over time some have attained managerial positions thanks to La Mancha's nondiscriminatory policy on employing and training. Since the mine's inauguration, 44% of the mine workers have been promoted.

The Hassai mine utilizes a level category system, ranging from 1 (being the lowest level) to 12 (being the highest level), to distinguish workers by qualifications, skills and experience. Each level upgrade represents a promotion. Table 3.2.1 demonstrates the level classification of local workers with the respective wages accompanying each level. These workers, on average earn 3 times the Sudanese minimum wage, making their salaries correspond to a significant proportion of the region's economic activity.

In addition to the direct benefits of employment at the mine, local Beja communities have benefited from social projects funded by the Regional Development Fund (discussed in section 3.2.2), including seven schools, one medical clinic, improvements to the local water and power supply, and transportation and communications services. Overall, La Mancha considers that the Hassai mine has contributed to improving the living conditions of about 10,000 Beja tribe members.



La Mancha values the advantages of multi-cultural teams at its operations. However, given the history of relations between the Beja tribe members and the central Sudanese government, there can be no assurance that the Beja would continue to benefit from the same equal opportunity employment policy currently in use without employment at the mine without La Mancha's influence.

⁶ Respect Sudanese Journal for Human Rights' Culture and Issues of Cultural Diversity 4th Issue, www.sudan-forall.org, November 2006, accessed on September 4, 2007

3.2.2 Regional Development Fund

The regional development fund was established on the initiative of Areva and maintained at La Mancha's insistence, as both companies have similar internal policies of giving back to the communities in which they operate. Since its creation, the fund has built seven schools and one medical clinic, strengthened the local water and power supply and funded transportation and communication services to these communities.

Each year, a portion of the mine's profits is paid into the fund and used for social projects within the local community. A total of US \$2.55 million has been contributed to date. For 2007, the Hassai mine's board of directors has elected to contribute US \$300,000, corresponding to more than 4% of anticipated profits of US \$6.75 million. This percentage is well above industry standards. For instance; in 2006, Barrick, the world's largest gold producer, reinvested 2% of its African mining earnings into the local African community.⁷

In addition to contributing to the regional development fund, AMC distributes significant quantity of food and of first necessity goods to the population living around the mine site. In 2006, AMC distributed a total of 300 tonnes of flour, 60 tonnes of sugar, 60,000 boxes of milk, 3.7 tonnes of laundry detergent and 6 tonnes of soap.

There can be no assurance that either the regional development fund or the food assistance program would continue to exist without La Mancha's influence.

3.2.3 Worker Health and Safety

The Hassai mine presently applies international best practice in its approach to worker health and safety. This includes:

- ❖ defining a clear, defined safety organization;
- ❖ making safety a key component of our operation;
- ❖ establishing a prevention policy and continuous improvement initiative; and
- ❖ developing an integrated safety management system.



⁷ Community Performance Tables, www.barrick.com, accessed on September 8, 2007
Barrick Gold Corporation 2006 end of year financial statement, accessed on September 8, 2007

During the 15 years that La Mancha (and its predecessor, Areva) has operated the mine, the accident rate at the mine has been comparable to that of some of the most respected mining companies. Table 3.2.4 compares the Hassai mine’s Lost Time Injury Rate (thereafter “LTIR”),

Table 3.2.4

		2007-7 months			2006			2005		
		LTIR	TMIR	Fatalities	LTIR	TMIR	Fatalities	LTIR	TMIR	Fatalities
Barrick	Hassai	0.3	0.9	0	0.2	1.2	0	0.2	1.4	0
	Bulyanhulu	N/A	N/A	N/A	0.2	2.1	1	0.3	2.9	0
	North Mara	N/A	N/A	N/A	0.4	1.8	1	0.3	1.8	0
	Tulawaka	N/A	N/A	N/A	0	0.2	0	0	1.1	0

our Total Medical Injury Rate (thereafter “TMIR”) and the number of fatalities with those of Barrick’s African operations.

This situation contrasts with the⁸ poor Worker Health and Safety record witnessed in other industrial sectors of the Country and illustrates La Mancha’s impact on the worker health and safety practices of the Hassai mine.

3.2.4 Environment

La Mancha’s presence on Hassai’s board of directors and on the management team brings a Canadian/European perspective to environmental protection, thus ensuring practices in line with international best practice. In particular, La Mancha ensures that:

- ❖ adequate monitoring and assessment methods are used to prevent any biological risk to the environment;
- ❖ property use is such that the ecoregion is preserved;
- ❖ environmental performance is improved by reducing pressure on natural areas and minimizing materials and energy consumption and contaminants released into the environment.



This environmentally responsible mining approach represents an important asset for Sudan and its population, and especially to people living in proximity to the mine site. There is currently no regulation in the country governing the mining industry and setting minimum environmental standards. It is therefore entirely up to the Hassai Mine to self-regulate. La Mancha (and its predecessor, Areva) adheres to the STAR environmental standards and has influenced and continues to significantly influence the mine environmental policy. An internal

⁸ Corporate Responsibility, www.barrick.com, accessed on September 8, 2007

appraisal of the Hassaï mine, conducted in April 2007 by Areva's Groupe de Sécurité et Environnement de la division minière, concluded as follows:

“[The Hassaï mine], like all the other mining sites of the Areva Group, is considered as a site with environmental and worker safety issues. This report attests to the quality of the work done by [the Hassaï mine] on worker safety and the environment. It also proposes many viable approaches to advancing these areas with the objective of meeting the required standards.”⁹ *Free translation of a document drafted in French*

Hassaï's already positive environmental evaluation has further improved since last April, as the recommendations made in the report are being implemented to ensure that the mine meets the highest industry standards. This situation contrasts with the poor environmental record of other industries in Sudan, and illustrates La Mancha's impact on the environmental practices at the Hassaï mine.



4. CONCLUSION

In light of the above analysis, we presently conclude that our participation in the Hassaï mine benefits the Beja people and other Sudanese, as well as our shareholders. We therefore intend to maintain our current involvement at the mine and continue to invest in its sustainability. Nevertheless, in order to do what we can to influence the current situation in Darfur, we hereby undertake, at the recommendation of an external NGO committed to the Sudan cause, to:

- ❖ Limit new investment in Sudan to those required by our shareholder agreement at the Hassaï mine until a peacekeeping force consistent with United Nations Security Council Resolution (UNSCR) 1769 has been comprehensively deployed to Darfur, and the Khartoum government has facilitated full implementation of all provisions in UNSCR 1769;
- ❖ Increase our existing humanitarian efforts in Sudan by contributing a minimum of \$120,000 of additional funds to a non-profit organization active in the Darfour area.

⁹ Compte Rendu de Mission « Soudan, Avril 2007 », Nicolas Wolter, Division Minière – Sécurité