



la mancha

WE FOLLOW THE GOLDEN TRAIL

2007 ANNUAL REPORT



LMA-TSX

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MESSAGE TO SHAREHOLDERS

A year ago, shortly after the reverse takeover that catapulted La Mancha to international gold producer status, we set ourselves three specific objectives for 2007 intended to unlock the Company's value over the next two to three years. These were: to revitalize our dormant assets in Australia; to upgrade our African mines to international standards; and to leverage the immense exploration potential of our properties. This was without doubt a very ambitious program for a new, emerging producer like La Mancha.

We are satisfied with the completion of the first stage of La Mancha's transformation into an efficient gold producer. We produced 53,900 ounces of gold in 2007, completed a feasibility study on our Frog's Leg project and started developing the Frog's Leg underground mine, initiated the upgrading of our African assets, and put an exploration team and aggressive exploration program into place.

Ultimately, total production fell short of the 75,900 ounces of gold expected primarily because of unanticipated technical difficulties encountered with starting up the new quartz ore processing circuit at the Hassaï mine. These difficulties were eventually overcome and the circuit was performing well by November. Simultaneously, a series of optimization measures were introduced at the Hassaï mine, providing a solid production base on which to build in the coming years.

Production for 2007 was also affected, albeit to a lesser extent, by the reduction in our stake in the Ity mine from 51% to 45.9%. However, at the same time, the Company introduced an optimization program at the Ity operation similar to that at Hassaï. This program should largely compensate for the reduction in ownership once it begins to generate results.

In Australia, delays in restarting operations at our White Foil mine also contributed to the 2007 production shortfall. Our Frog's Leg advanced development project, on the other hand, generated strong results throughout 2007. By mid-year, drilling had virtually doubled the Frog's Leg measured and indicated resource to 723,000 ounces of gold, and the feasibility study tabled in November showed an internal rate of return of 48% at a gold price of US \$650 per ounce. Based on the strength of these results, we have decided to prioritize the development of the Frog's Leg project over White Foil to ensure a smooth mine start-up, scheduled to occur by the beginning of the third quarter of 2008. Work on the White Foil development project nevertheless continues, and we are confident that the new feasibility study currently underway will confirm the mine's potential to add to La Mancha's production in the short term.

SOCIAL RESPONSIBILITY – With La Mancha's new-found international producer status came bigger responsibilities, notably to the environment, communities and employees affected by our operations. To that effect, La Mancha adapted existing policies with the intention of further enhancing its operational responsibility. Most notably, in light of the ongoing conflict in Darfur, Sudan, we developed a policy that outlines the conditions under which La Mancha will continue to operate in that country. The policy is now posted on our web site. Our activities in the social responsibility arena are described in greater detail in the following pages.

OUTLOOK – Our priorities for 2008 are to:

- Increase production at Hassaï and Ity;
- Put Frog's Leg into production on time and on budget;
- Further exploit La Mancha's tremendous exploration potential; and
- Continue to proactively engage in socially responsible development programs.

For 2008, La Mancha plans to produce 87,000 ounces of gold at an average cash cost of US \$500 per ounce. With the quartz line now operating up to speed, one million tonnes of higher-grade quartz ore stockpiled at the entrance to the mill and new operating measures in place, the Hassaï mine has a solid base for higher production and lower cash costs. The Ity mine should also benefit from efforts invested in 2007 to stabilize the operation and render it more efficient. The Frog's Leg mine is scheduled to enter production by the beginning of the third quarter and will contribute 22,500 ounces of gold, accounting for the bulk of the production growth for the year.

In addition to our production activities, we will invest \$10.6 million in exploration in 2008. A volcanic massive sulphide exploration program already underway at Hassaï will receive most of these funds and promises interesting results.

A year ago, we acknowledged that La Mancha's rapid ascent to the new status of gold producer was not without its challenges. Although difficult at times, 2007 allowed the Company to make substantial progress toward meeting those challenges and laying a solid foundation for its future. We are looking forward to building on this foundation in 2008 and seeing the results of our efforts begin to materialize.



Michel Cuilhé
President and Chief Executive Officer
Chairman of the Board of Directors

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE TWELVE-MONTH FISCAL PERIOD ENDED DECEMBER 31, 2007**

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's annual audited consolidated financial statements dated December 31, 2007, which were prepared in accordance with generally accepted accounting principles (GAAP) in Canada. The Company's shares are listed on the TSX under the symbol LMA, and its reporting currency is the Canadian dollar. All amounts herein are expressed in Canadian dollars unless otherwise stated. This MD&A is dated April 4, 2008.

Forward Looking Statements

This report contains forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and operational results. By nature, these risks and uncertainties could cause actual results to differ materially from what has been indicated. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of

ore mined varying significantly from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failure to obtain governmental, environmental or other project approvals and other factors. The Company disclaims any obligation to update publicly or otherwise revise any forward-looking statement as a result of new information, future results or other such factors which affect such statements, except as required by law.

INTRODUCTION – REVERSE TAKEOVER TRANSACTION AND RELATED ACCOUNTING CHANGES (FOR THE RECORD)

On September 28, 2006, Compagnie Minière Or S.A. (“Cominor”) and Mines & Resources Australia Pty. Ltd. (“MRA”), corporations under the laws of France and Australia respectively, became the acquirers, for accounting purposes, of La Mancha Resources Inc. (“LMRI”), a reporting issuer in Canada, upon the closing of a reverse takeover transaction (“RTO”) involving the securities of LMRI. Cominor and MRA were under common ownership prior to the RTO. In the rest of this document, “La Mancha”, “we”, “us” and “the Company” refer to the consolidated activities and operations of Cominor and MRA before and after September 28, 2006, also including LMRI from September 28 forward, and “LMRI” refers to the consolidated activities and operations of the accounting entity La Mancha Resources Inc. as it was constituted prior to September 28, 2006.

Under Canadian GAAP and related securities law, the historical financial statements of La Mancha as at and following the RTO are those of Cominor and MRA, and the ongoing financial statements of La Mancha following the RTO take into account and consolidate the transactions

of LMRI only as of September 28, 2006. Effective upon the closing of the RTO, La Mancha changed its fiscal year end from September 30 to December 31. Also on September 28, 2006, the shares of La Mancha were listed on the TSX and La Mancha ceased to be a “venture issuer” as defined in National Instrument 51-102 *Continuous Disclosure Obligations* (“NI 51-102”).

Accordingly, the financial statements to which this MD&A relates, including prior period comparative financial statements, bear no resemblance to the financial statements of LMRI for periods prior to the RTO. The disclosures required under NI 51-102 are subject to the limitation that certain comparative financial disclosure of Cominor and MRA has been prepared under International Financial Reporting Standards (“IFRS”) and in the previous reporting currencies of Cominor (Euros or €) and MRA (Australian dollars or AUD) and is referenced to financial statements prepared under IFRS accounting principles in € or AUD and filed on SEDAR.

INTRODUCTION – LA MANCHA’S BUSINESS

La Mancha is in the business of developing and operating gold mines and acquiring and financing exploration stage mineral properties with the objective of attaining mine production. La Mancha currently operates two producing gold mines in Africa, has two mining projects under development in Australia with targeted production in 2008, and holds a portfolio of some 30 exploration projects in Africa, Australia and Argentina. Complete disclosure of the Company’s corporate and operational structures and its activities can be found on the SEDAR website at www.sedar.com and on the Company’s website at www.lamancha.ca. The term “Financial Statements” used in this report refers to the audited annual financial statements of La Mancha Resources Inc. as at and for the years ended December 31, 2007 and 2006, prepared on the basis described above.

2007 HIGHLIGHTS

- Revenues of \$48.5 million
- Cash flow from operating activities of \$0.5 million
- Net loss of \$10.8 million
- 45% increase in reserves to 688,800 ounces
- Total production of 53,900 ounces (at US\$485 per ounce)
- Positive feasibility study and start of development at Frog’s Leg
- Cash position of \$13.1 million

OVERALL PERFORMANCE

La Mancha Resources Inc. (TSX: LMA, hereinafter “La Mancha” or the “Company”) produced 53,900 ounces of gold at an average cash cost of US\$485 per ounce in 2007, generating revenues of \$48.5 million. This compares to production of 62,300 ounces at an average cash cost of US\$352 the previous year, for revenues of \$60.2 million. The decrease in production and revenues is due to lower gold output at both the Hassaï and Ity mines and the reduction in La Mancha’s interest in the Ity mine from 51% to 45.9% effective May 25, 2007, obliging the Company to cease consolidating 100% of Ity’s results and begin consolidating them by the proportional method as of that date.

La Mancha recorded a net loss of \$10.8 million in 2007, compared to net earnings of \$5.0 million for 2006. This performance can mainly be attributed to lower profitability at the Hassaï and Ity mines, higher development and exploration costs associated with the relaunching of Australian and Argentinean activities, a \$1.8 million write-down of ABCP investments and restructuring of corporate functions, which combined to offset the impact of the Company’s higher average gold selling price.

As anticipated, 2007 proved to be a capital-intensive year, as the Company devoted significant efforts to upgrading its operating mines while starting the development of its 51%-owned Frog’s Leg mine. As a result, La Mancha’s investing activities used cash flow of \$33.2 million in 2007 compared to \$9.9 million the previous year. As of December 31, 2007, La Mancha’s cash position stood at \$13.1 million and long-term investments in various securities amounted to an additional \$14.6 million.

RESERVE AND RESOURCE UPDATE

At year-end 2007, La Mancha’s attributable proven and probable reserves amounted to 688,000 ounces of gold contained compared to 472,000 ounces of gold contained at the end of 2006, representing a 45% increase. Most of this increase is due to a net gain of 621,630 ounces at the Frog’s Leg mine (317,000 ounces attributable to La Mancha) that followed the completion of a favourable feasibility study in December 2007. A full description on La Mancha’s mineral reserves and resources is provided in the mineral reserves and resources table at the end of this Document.

OPERATIONS IN SUDAN

The Hassaï mine produced a total of 86,900 ounces of gold (34,760 ounces attributable to La Mancha) at an average cash cost of US\$481 per ounce in 2007, compared to 101,520 ounces (40,600 ounces attributable to La Mancha) the previous year at an average cash cost of US\$334 per ounce.

The lower gold output in 2007 was essentially due to delays in the commissioning of the recently built quartz milling circuit, which had a negative impact on the tonnage and grade milled during the year. While limiting the capacity of the plant, the delay in starting up the quartz line also prevented the mine from milling the higher grade quartz ore

stockpiled beside the plant. The increase in cash costs per ounce for 2007 can be mainly attributed to unfavourable fluctuations in currency exchange rates and the lower grade milled respectively responsible for 29% and 27% of the increase in cash costs per ounce relative to 2006. To a lesser degree, cash costs per ounce were also impacted by an increase in the cost of consumables, responsible for 20% of the increase in the cash cost per ounce.

The following table shows the quartz ore tonnage and grade milled through the quartz line over the past six months.

Quartz Ore Milled		
	Tonnage (tonnes per day)	Grade (g Au/t)
July 2007	658	5.28
August 2007	653	6.10
September 2007	615	4.97
October 2007	540	5.30
November 2007	910	6.13
December 2007	1.255	5.74

The start-up of the quartz line helped increase both the average tonnage and average grade milled per day during the last quarter.

OPERATIONS IN CÔTE D’IVOIRE

The Ity mine produced a total of 39,960 ounces of gold (19,135 ounces attributable to La Mancha) at an average cash cost of US\$491 per ounce in 2007, compared to 42,570 ounces (21,700 ounces attributable to La Mancha) the previous year at an average cash cost of US\$387 per ounce. The decrease in La Mancha’s attributable gold production was mainly due to the overall decrease in mine production coupled with the reduction of the Company’s ownership in the mine. La Mancha’s participation in the Ity mine decreased from 51% to 45.9% in May 2007 on renewal of the Ity mining permit for the next five years.

Despite an increase in tonnage due to the implementation of a third milling shift and higher grades milled, the Ity mine produced less gold than in 2006, mainly due to lower gold recovery. Even though more reagents were used over a longer period of time, the higher sulphide content ore found at the bottom of the Zia pit did not respond well to the cyanidation process, thus explaining the lower recovery rate observed.

The lower recovery rate is also responsible for more than 50% of the increase in cash costs in 2007. Other main elements impacting cash costs per ounce in 2007 were: diseconomies of scale caused by lower gold output, an increase in the cost of consumables, unfavourable changes in currency exchange rates and expensed development costs for the new Mount Ity pit.

DEVELOPMENT PROJECTS

La Mancha invested \$20.1 million in the development and/or upgrade of its properties over the course of 2007. The following table illustrates the main project investments:

MAIN PROJECT INVESTMENT		(IN MILLIONS OF \$)
Frog's Leg	Project Development	10.3
White Foil	Project Development	3.0
Hassaï	Plant Optimization	1.5
	Hassaï Other	2.0
Ity	Dam and Water Pumping System	1.6
	Ity Other	1.4
Other		0.3
Total		20.1

The development of the **Frog's Leg** mine, which started in August 2007, remains on track with the timeline and budget in the feasibility study. The details of the feasibility study are available in the technical report filed on SEDAR on January 18, 2008. Highlights of the feasibility study are as follows:

	100%	ATTRIBUTABLE TO LA MANCHA (51%)
Production:		
Gold reserves (contained)	621,648 oz	317,040 oz
Avg ore mined per year	456,167 oz	232,645 oz
Gold recovered	589,944 oz	300,871 oz
Metallurgical recovery	94.9%	94.9%
Yearly production rate	73,743 oz	37,609 oz
Mine life	7.5 years	7.5 years
Financials*:		
Development capital cost	CA\$35.0 million	CA\$17.8 million
Total sustaining capital	CA\$38.0 million	CA\$19.4 million
Total cash costs	US\$399/oz	US\$399/oz
Internal rate of return	47.5%	47.5%
Net present value @ 0% discount		\$0.34/share
Payback period from 2008	31 months	31 months

*All financial calculations are based on a gold price of US\$650/oz, a USD/AUD exchange rate of 1.30, and are inclusive of 2007 expenditures.

La Mancha's Australian crew had completed the development of more than 2.3km of decline, cross-cut and ore development at the end of February 2008. One highlight of this is that the underground magazine has been excavated, fitted out and is now in use. Level development on the Rocket ore is well advanced and it is expected that stoping will commence on the upper parts of this orebody during April 2008 after the commissioning of the airway and escape way. At the end of February the mine had stockpiled 42,000 tonnes of ore grading 3.38g/t on the surface. Ore transportation to the Jubilee processing plant will begin in late March in anticipation of a milling campaign commencing in May.

With respect to infrastructure, the new office complex is largely complete and in use, an 11-km potable water line has been installed, the 11kV power network was completed and is now in use, and the main power should be connected in late April 2008. The workshop is being completed and is now being used by maintenance personnel. A refurbished long-hole rig was commissioned and is now in use at considerable cost

savings compared to new. Negotiations have commenced to purchase a third twin-boom Jumbo. An ejector tray truck has been sourced and will commence operation in the coming weeks. Some 81 personnel now work at the Frog's Leg mine, and there are recruitment plans to increase the workforce up to levels flagged in the feasibility study.

Putting the **White Foil** project back into production remains a priority for La Mancha and profitable strategies to support this are being investigated. Pit dewatering has been completed and maintenance pumping is being carried out. The recent re-assessment of the wall conditions is forcing the Company to seek new alternatives to the existing mining plan. A grade control drilling program and a reserve definition drilling campaign are currently taking place with that objective in mind; the results of these initiatives will be used to update and verify the White Foil resource. These results and the findings of other relevant studies and associated designs will be used to complete a new feasibility study.

SELECTED ANNUAL INFORMATION

The following financial data is derived from the Company's audited financial statements, prepared in accordance with Canadian GAAP, for the periods specified, all on the basis describe on page 1 of this MD&A under the heading "Reverse Takeover Transaction and Related Accounting Changes".

FISCAL PERIOD	YEAR DEC. 31, 2007 \$ 000'S	YEAR DEC. 31, 2006 \$ 000'S	YEAR DEC. 31, 2005 (UNAUDITED) \$ 000'S
Net sales	48,456	60,186	79,280
Net income ¹ (loss)			
In total	(10,806)	5,021	6,295
Per share – basic and fully diluted ²	(0.076)	0.049	0.070
	AS AT DEC. 31, 2007	AS AT DEC. 31, 2006	AS AT DEC. 31, 2005
Total assets	131,579	159,833	94,258
Total long-term financial liabilities	7,234	6,682	9,702
Cash dividends declared	none	none	none

1. Net income is the same as income before discontinued operations and extraordinary items.

2. Per share amounts are in dollars, not thousands of dollars.

Société des Mines d'Ity's renewal of its mining permit and transfer of 10% ownership to the Ivorian government

On May 25, 2007, the Company reached an agreement with the authorities of the Republic of Côte d'Ivoire regarding the renewal of the mining permit for the Ity mine. The Ity mine was granted a mining permit valid until November 2013 in exchange for the transfer of 10% of the Company's interest in the Ity mine to the Ivorian state.

Upon execution of the shareholders' agreement on May 25, 2007, the Ity mine became a joint venture over which La Mancha holds joint control. La Mancha must therefore begin to account its interest in the Ity mine using the proportionate consolidation method as required by CICA 3055.17. Proportionate consolidation will be applied prospectively as it reflects a new

situation that only came into being on May 25, 2007. Accordingly, the consolidated statements of income and cash flows are fully consolidated with a 49% non-controlling interest until May 25, 2007 (i.e. in practice May 31, 2007), and proportionately consolidated reflecting the 45.9% interest from that date onward. The consolidated balance sheet reflects only 45.9% of the Ity mine assets on September 30, 2007.

The Company's interest in the Ity mine has therefore been reduced from 51% to 45.9%. The Company's 45.9% share of the fair value of the renewed mining license has been estimated to approximate the carrying value of the 5.1% Ity mine interest transferred to the state and, accordingly, no gain or loss has been recorded in the income statement in connection with this transaction.

RESULTS OF OPERATIONS

The results of operation are fundamentally driven by mining and processing operations at the Company's projects. The following table sets out the operating parameters for these projects for the three month period and year reported on.

	3 MONTHS ENDED DEC. 31, 2007	3 MONTHS ENDED DEC. 31, 2006	YEAR ENDED DEC. 31, 2007	YEAR ENDED DEC. 31, 2006
Hassaï				
Tonnage milled (000 tonnes)	214	237	889	937
Grade milled (g Au/t)	4.6	4.0	4.1	4.4
Attributable gold production (oz)	9,800	10,260	34,760	40,600
Cash costs (US\$ per ounce)	497	389	481	334
Ity				
Tonnage milled (000 tonnes)	122	107	435	419
Grade milled (g Au/t)	3.7	3.4	3.6	3.6
Attributable gold production (oz) ¹	4,620	5,930	19,140	21,700
Cash costs (US\$ per ounce)	568	466	491	387

1. 51% of the gold production up until May 31, 2007 and 45.9% of the gold production since June 1, 2007.

REVENUES

The following table sets out sales by entity:

QUANTITIES (OZ)	3 MONTHS ENDED DEC. 31, 2007	3 MONTHS ENDED DEC. 31, 2006	YEAR ENDED DEC. 31, 2007	YEAR ENDED DEC. 31, 2006
Hassaï (40%)	9,590	10,666	34,671	41,592
Ity ¹	4,741	11,575	26,977	42,568
TOTAL	14,331	22,241	61,647	84,160
Total revenues (\$000's)	12,095	15,849	48,456	60,186

1. 100% of the gold sold up until May 31, 2007 and 45.9% of the gold sold since June 1, 2007.

Revenues for the year ended December 2007 were \$48.5 million, down 19% from \$60.2 million for the same period last year. The net decrease of \$11.7 million resulted from two main factors: a \$9.7 million decrease arising from the proportional consolidation of Ity sales since the end of May and a decline in volume sold mainly at the Hassaï mine, which reduced the sales volume by 11% and revenues by \$6.5 million compared with last year. These negative factors were offset by an 8% year-over-year increase in the average gold price, a net result of a 15% increase in the average gold price denominated in US dollars, the unfavourable USD exchange rate against the Euro (as the sales of the Company are paid in Euros) and the Euro exchange rate against the CAD.

Sales were completely unhedged in both 2007 and 2006.

During 2007, a total of 34,671 ounces of gold from the Hassaï mine (our share) were sold at an average price of US\$701 (or €508) per ounce compared with 41,592 ounces of gold at an average price of US\$610 (or €484) in 2006. This variance in volume is explained by a lower volume of ore processed (5%) and a lower grade of ore processed (4.1 g/t vs 4.4 g/t).

During 2007, a total of 26,977 ounces of gold from the Ity mine (our share) were sold at an average price of US\$723 (or €527) per ounce compared with 42,568 ounces of gold at an average price of US\$626 (or €497) in 2006. The proportional consolidation of Ity sales in 2007 resulted in a decrease of 13,100 ounces in volume sold and a decrease of \$9.7 million in revenues.

Australia did not generate any production or sales in 2007 or 2006, as mining at Frog's Leg ceased in September 2005.

COST OF SALES

The cost of sales for the year ended December 2007 was \$36.9 million, down 8% from \$40.1 million in 2006. This reflects the 19% decrease in the volume sold, partially offset by the increase in the average unit cash cost, which was US\$ 485 per ounce for 2007 as compared to US\$ 352 last year. The increase in unit cost was due to higher mining and milling costs arising primarily from the following factors:

- a continuing strong increase in general purchasing prices (energy, freight, cement, chemicals, spare parts and supplies specific to mining activity due to strong demand in this sector) since the same period last year;
- statutory salary increases in Sudan and Côte d'Ivoire;
- lower gold grades of the ore milled due to the delay in finalizing the Ity pit in Côte d'Ivoire, in implementing the quartz line in Sudan and in product of the bottom of the Flotou-Zia pit prior to starting the new Ity pit in 2008.
- a higher stripping ratio at Hassaï due to the start-up of two new pits during the second quarter of 2007;

- unfavourable SDD/€ and USD/€ exchange rates: the € rose by 9% against the USD from January 2007 to December 2007; the Company incurs costs in € in Sudan and Côte d'Ivoire, while unit cash costs are in USD.

Several measures, particularly regarding work organization, were adopted and implemented in 2007. A layoff program was implemented at Hassaï and 275 employees agreed to leave the Sudanese entity by mutual agreement at the end of third quarter 2007. This program was completed in October. These cost-cutting measures should translate into improved results for 2008.

EXPLORATION AND EVALUATION EXPENSES

During 2007, the Company incurred total exploration and evaluation expenses of \$7.5 million compared to \$3.9 million in 2006. In 2007, these expenses related to exploration efforts in Australia (\$4.4 million in 2007 vs. \$2.6 million in 2006), mainly in the Kalgoorlie area and Queensland, the completion of an airborne survey in Sudan, the start of a drilling campaign at the Ortigueta project in Argentina and a new exploration program in Côte d'Ivoire during the fourth quarter of 2007.

Moreover, Sudanese exploration expenses included previously capitalized exploration expenses of \$0.7 million, as economic studies during the second quarter of 2007 in the area of Hadal Awatib revealed that operating conditions do not support the launch of open-pit operations. Complementary studies should show whether underground mining is a viable alternative.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$9.1 million in 2007 as compared to \$5.3 million the previous year. The increase is due to the recording of administrative expenses for both the Vancouver office and the new Montreal office for La Mancha Resources Inc. (\$6.2 million in 2007 vs. \$1.9 million only occurred in the fourth quarter of 2006). The period of transition between the two offices is now complete and the Vancouver office expenses have been eliminated since August 2007. La Mancha's administrative expenses include professional and audit fees, some of which are non-recurrent as they are related to legal advisors and accounting consultants for the first annual and quarterly consolidated financial statements.

OTHER OPERATING INCOME / (EXPENSE)

During 2007, the Company incurred total other operating expenses of \$3.5 million compared to \$1.4 million in 2006. The 2007 amount includes the accounting of non-recurrent items, namely Australian stamp duties amounting to \$0.9 million for the transfer of the Australian entity to La Mancha Resources in 2006, incentive premiums of \$0.4 million arising from the implementation of the layoff program at the Hassaï mine in September 2007 and expenses relating to electrification of villages near the mine site in Côte d'Ivoire. Moreover, operating costs of \$2.2 million related to care and maintenance of the White Foil mine in Australia were expensed in 2007.

JOINT VENTURE MANAGEMENT FEE RECOVERIES

The Company's subsidiary in Australia earns a management fee for work performed on behalf of joint ventures managed by La Mancha. Joint venture recoveries were \$0.3 million in 2007 as compared to \$0.3 million for the same period in 2006. This amount is directly linked to the joint venture expenditures and is shown on a separate line in reduction of expenses.

INTEREST INCOME / (EXPENSE)

Interest income was \$1.1 million for 2007 as compared to \$0.4 million for in 2006. It mainly comprises interest received on cash deposits in Canada.

LOSS ON MORTGAGE PAYABLE

Refer to Note 17 to the Financial Statements.

Under the usufruct agreement relating to the Hualilan property in Argentina, an Argentinian subsidiary is responsible for a mortgage payable converted into gold ounces. Initially denominated in Argentinian pesos, the debt is based on the market price of gold, and the loss recorded as of December 31, 2007 amounted to \$0.8 million as compared to \$0.7 million in 2006.

LOSS ON INVESTMENTS

Refer to Note 15 (b) to the Financial Statements.

Two notes for a total of \$12.0 million held by the Company remained outstanding as a result of the lack of liquidity for asset-backed commercial paper. An impairment loss of \$1.8 million was estimated using a probability-weighted approach. This estimate could change materially in the near term as additional information becomes available and the restructuring process under the Montreal Proposal progresses.

STATUS AND OUTLOOK OF MINING OPERATIONS

For 2008, La Mancha is anticipating a 61% increase in its attributable gold production to 87,000 ounces at a cash cost of \$500/ounce. As shown in the table below, the bulk of the production increase is expected to come from the new Frog's Leg underground mine in Australia, scheduled to enter into production at the beginning of the third quarter. The Hassaï and Ity mines should also contribute to increasing La Mancha's attributable production by adding approximately 10,700 ounces of gold to their combined 2007 production.

ATTRIBUTABLE PRODUCTION (IN OZ)	2006 A	2007 A	2008 E
Hassaï	40,600	34,760	40,000
Ity	21,700	19,140	24,600
Frog's Leg	—	—	22,400
Total	62,300	53,900	87,000

*All financial calculations are based on a gold price of US\$650/oz, a USD/AUD exchange rate of 1.30, and are inclusive of 2007 expenditures.

At **Hassaï**, the improved performance of the quartz line seen in the last months of 2007 makes management confident that the mine's newly acquired ability to process the higher grade quartz ore will have a strong impact on the gold output in 2008, justifying the attributable production target of 40,000 ounces of gold at an estimated cash cost of \$496 per ounce set for 2008.

At the **Ity mine**, La Mancha is forecasting a 28% increase in production in 2008. The mine's gold production is expected to total 53,400 ounces for the year (24,600 ounces attributable to La Mancha) at a cash cost of \$355 per ounce. The increase is essentially due to the start of mining at the new Mount Ity pit, which was recently inaugurated in February 2008. The higher grades expected from this new pit are responsible for 79% of the total increase in the mine's gold output. The process improvement initiatives introduced in 2007 will also contribute to the planned increase in production, albeit to a lesser degree, thanks to increased tonnage milled and a higher recovery rate.

At **Frog's leg**, management remains confident that the mine will start contributing to La Mancha's production by June 2008. As indicated in the feasibility study, La Mancha expects Frog's Leg to contribute 43,970 ounces of gold (22,400 ounces attributable to La Mancha) at a cash cost of \$667 per ounce during the last six months of 2008. The average cash cost of Frog's leg over the mine life is \$369 as indicated in the feasibility study.

RISKS AND UNCERTAINTIES

The Company is exposed to financial risk factors and risks associated with critical accounting estimates and judgments. These matters are described in detail in Notes 4 and 5 to the Financial Statements.

Note 15 (b) to the Financial Statements reports on uncertainty with respect to the two asset-backed commercial papers held by the Company:

As at December 31, 2007, the Company held two notes for a principal amount of \$12 million Canadian non-bank sponsored asset-backed commercial paper ("ABCP") issued by two issuers. These two notes, which were due and payable on September 4, 2007, remain outstanding as a result of the inability of the issuers to complete a rollover on the due date because of the lack of liquidity for ABCP. At the dates at which the Company acquired the investments, the notes were rated R-1 (High) by DBRS, the highest credit rating for commercial paper.

DBRS has placed this ABCP "Under Review with Developing Implications" following the August 16, 2007 announcement that a group representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim standstill agreement to convert the ABCP into term floating-rate notes ("FRNs") maturing no earlier than the scheduled maturity dates of the underlying assets (the "Montreal Proposal").

On September 6, 2007, the Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper (the "Committee") consisting of a panel of major Montreal Proposal ABCP investors was formed. On October 16, 2007, the Chairman of the Committee agreed to the extension of the standstill agreement until December 14, 2007, at which time the Committee expected to have proposals to restructure all of the remaining conduits. On December 23, 2007, the Chairman of the Committee announced the framework of the proposed restructuring of 20 of the remaining 21 conduits (the "Framework Agreement") and further extended the standstill agreement until January 31, 2008. The Framework

Agreement proposes to (i) replace the existing ABCP subject to the Montreal Proposal by new floating-rate notes with a maturity similar to that of the underlying assets; (ii) pool certain series of Montreal Proposal ABCP which are supported in whole or in part by underlying synthetic assets; (iii) mitigate the margin call obligations of the existing conduits and put in place credit facilities to fund such margin calls if they occur; and (iv) facilitate the establishment of market mechanisms for the new notes to facilitate access to liquidity for holders requiring it.

With respect to the synthetic assets, the Framework Agreement provides that the pooling of the existing notes indicated above will be effected by the establishment of two limited partnerships which will issue variable-rate notes in exchange for the existing ABCP. The Company plans to join the second partnership ("MAV 2") and accordingly will not have to itself provide a portion of the planned credit facility. Furthermore, MAV 2 is expected to issue a combination of senior and subordinate notes in exchange for the existing ABCP. The proportion of senior and subordinated notes will depend among other things on the relative fair value of the ABCP. The Committee expects that the MAV 2 senior notes will obtain a AAA credit rating, while the subordinated notes will remain unrated.

The notes held by the Company are covered by the Framework Agreement, of which approximately 92% of the nominal amount constitutes "synthetic assets" and the remainder constitutes "ineligible assets".

On February 29, 2008, the Investors Committee announced a further extension of the standstill agreement. A meeting of noteholders is expected to occur in mid-April, with a closing toward the end of April 2008. On March 17, 2007, the Investors Committee announced that it has asked the Ontario Court of Justice for permission to call a noteholder meeting to approve the restructuring plan. Assuming the Court approves the request, noteholders will receive the complete information. The plan has been approved by the Committee and is supported by certain dealer bank providers and the ABCP sponsors.

The Montreal Proposal ABCP last traded on the active market on or about August 13, 2007, and there are currently no market quotations available for the Montreal Proposal ABCP. The ABCP held by the Company continues to be rated R-1 (High, Review with Developing Implications) by DBRS.

There is currently no certainty regarding the outcome of the proposed restructuring and therefore there is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Montreal Proposal ABCP. The Company estimates the fair values of the Montreal Proposal ABCP using a valuation technique which incorporates a probability-weighted approach applied to discounted future cash flows considering the best available data regarding market conditions for such investments as at December 31, 2007. In determining the fair values of the ABCP, the Company used a weighted average of three possible scenarios: scenario of the Montreal Proposal which appears the most probable, scenario of an orderly liquidation and scenario of a disorderly liquidation. The Montreal Proposal scenario assumes that the ABCP will be converted to long-term FRNs in accordance with the key elements of the Framework Agreement. The Company assumes that the restructured pooled synthetic notes (\$11.0 million principal amount) will be supported by collateralized debt obligations ("CDOs") with average maturity of 7 years having interest commensurate with AAA-rated notes. As indicated before, these pooled synthetic notes will be split into senior and subordinated notes, the significant majority expected to be ranked senior. Furthermore, in determining the fair value of the ABCP, the Company assumes that returns on the pooled synthetic notes will be reduced by

the cost of the credit facility. The Company assumes that the part of one of the two notes which has partial exposure to US residential mortgage-backed securities will be restructured as ineligible notes (\$0.96 million principal amount of which \$0.3 million has exposure to US RMBS, representing 2.7% of total amount) with average maturity of 7 years bearing interest. The amount of \$0.3 million with exposure to US RMBS was discounted by 50%. The Company has estimated the restructuring costs applicable to all restructured notes. Such restructuring costs are expected to further diminish returns on the Montreal Proposal ABCP. In the scenario of orderly liquidation, the pooled synthetic and the ineligible notes were valued on the basis of market indexes by category of assets. The scenario of disorderly liquidation is similar to the scenario of orderly liquidation but with a significant assumed decrease in the valuation. Based on these assumptions, the Company recorded a reduction in fair value of \$1.8 million. On the basis that the Company has not been able to collect all amounts due according to the original contractual terms, this decline in value has been recorded in earnings. As at December 31, 2007, the fair value of the Company's ABCP was estimated at \$10.2 million.

The ABCP held by the Company no longer qualifies as cash equivalents, and the Company has classified it as a long-term investment.

Since the fair value of the ABCP is determined using a probability-weighted approach employing the foregoing assumptions and is based on the Company's assessment of market conditions as at December 31, 2007,

the fair value reported may change materially in subsequent periods due to changes in interest rates and credit conditions, the availability of more detailed information on the underlying assets supporting the notes held by the Company and the aggregate pool of assets that would support the MAV 2 notes, and the split between senior and subordinated MAV 2 notes. In addition, the fair value estimate is dependent upon the likelihood, nature and timing of future restructuring under the terms of the Montreal Proposal and the December 2007 Framework Agreement.

Note 18 to the Financial Statements reports on uncertainty with respect to taxes payable by AMC in Sudan.

In accordance with the instructions of the Minister of Finance, the 2007 Sudanese income tax was recorded with a 10% tax rate and the 2006 income tax was adjusted to the 10% rate applying to the taxable amount indicated on November 26, 2007 by the Sudanese Taxation Chamber; the total 2006 adjustment (our share) amounted to \$0.19 million after deduction of the fiscal risk provision booked in 2006. The Company is now waiting for the final tax assessment from the Sudanese Taxation Chamber with these tax rates. Management believes that there is no longer any significant risk regarding the income tax rate.

Note 17 to the Financial Statements describes a contingency related to the Hualilan property in Argentina.

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

FISCAL QUARTER ENDED	NET SALES (\$ 000'S)	NET INCOME/(LOSS) ¹ (\$ 000'S)	NET INCOME/(LOSS) PER SHARE ²	NET INCOME/(LOSS) PER SHARE, FULLY DILUTED (\$)
December 31, 2007	12,095	(3,253)	(0.023)	(0.023)
September 30, 2007	9,384	(3,239)	(0.023)	(0.023)
June 30, 2007	13,329	(2,879)	(0.020)	(0.020)
March 31, 2007	13,648	(1,435)	(0.010)	(0.010)
December 31, 2006	15,849	(2,082)	(0.015)	(0.015)
September 30, 2006	16,165	1,879	0.020	0.020
June 30, 2006	14,002	3,149	0.035	0.035
March 31, 2006	14,170	2,075	0.023	0.023

1. Net income/(loss) is the same as income before discontinued operations and extraordinary items.

2. Per share amounts are in dollars, not thousands of dollars.

Unaudited financial data for Cominor and MRA for the three-month period ended March 31, 2006, has been disclosed separately for each of those companies in Appendix D to the Company's Management Information Circular dated August 21, 2006. The statements of Cominor disclosed therein were prepared on the basis of IFRS and reported in Euros, and the statements of MRA on the basis of the Australian version of IFRS and reported in Australian dollars. The financial statements of Cominor provide a reconciliation to Canadian GAAP in Note 30, and the statements of MRA provide a reconciliation to Canadian GAAP in Note 29.

Unaudited financial data for Cominor and MRA for the three- and six-month periods ended June 30, 2006, has been disclosed separately for each of those companies in filings made on SEDAR on October 10, 2006 under La Mancha Resources Inc. The statements of Cominor disclosed therein were prepared on the basis of IFRS and reported in Euros, and the statements of MRA on the basis of the Australian version of IFRS and reported in Australian dollars. The financial statements of Cominor provide a

reconciliation to Canadian GAAP in Note 11, and the statements of MRA provide a reconciliation to Canadian GAAP in Note 9.

Net loss for the fourth quarter of fiscal 2007 was \$3.3 million compared to \$2.1 million in 2006.

Gold sales for the fourth quarter totalled 14,331 ounces as compared to 22,241 ounces for fiscal 2006, for a decrease of 35.5%. Revenues for the fourth quarter of 2007 were \$12.1 million, down 23.7% from \$15.8 million for the same period last year. The proportional consolidation of Ity sales for the fourth quarter resulted in a decrease of \$4.3 million in revenues. The other main factor behind the decrease in revenues was the 10% decline in volume sold at the Hassai mine. This variance is explained by a lower volume of ore processed (9.7%). However, year-over-year gold prices compare favourably; the global price increased by 10% in the fourth quarter of 2007 relative to the same period in 2006. Consequently, the gross margin was \$2.9 million, down 26% from \$3.9 million.

During the fourth quarter of 2007, the Company incurred total exploration and evaluation expenses of \$1.6 million, up from \$1.5 million in the same period of 2006 due to the beginning of an exploration campaign in Argentina in addition to Australian exploration expenses.

Fourth quarter general and administrative expenses were \$1.9 million in 2007 as compared to \$3.1 million the previous year. During the fourth quarter of 2006, expenses at the corporate level were particularly high due to professional fees linked to the reverse takeover transaction.

For the fourth quarter of 2007, other operating expenses amounted to \$1.7 million as compared to \$0.9 million in 2006. The 2007 amounts mainly consist of care and maintenance costs at the White Foil mine following dewatering of the pit due to the delay in the resumption of activities. The 2006 amount consisted mainly of an accrual for the moving of Ity Village in Côte d'Ivoire.

CASH FLOWS

Operating activities generated cash flow of \$0.5 million during 2007 compared to \$14.6 million in 2006. The decrease in cash flow is due to the lower volume of gold sold and higher production costs, exploration expenses and administrative expenses. Furthermore, in 2007, working capital items generated \$3.0 million in cash flow as compared to \$(3.6) million in 2006.

Investing activities used \$33.2 million in cash flow in twelve months of 2007 compared to \$9.9 million in the same period of 2006. The increase is due to many factors. Capitalized costs of \$13.0 million were incurred for the development of the Frog's Leg and White Foil mining projects in Australia. Furthermore, two asset-backed commercial papers held by the Company were classified as long-term investments for an amount of \$12.0 million; these notes were previously classified as cash equivalents (refer to Note15(b) to the Financial Statements). This aggregate also includes a proportionally deconsolidated amount of \$1.1 million in cash and cash equivalents for the Ity mine.

Financing activities did not generate or use significant cash flows in 2007, except the dividends paid to non-controlling interests in Côte d'Ivoire in May 2007 before the change from unilateral to joint control of Ity. Financing activities in 2006 were linked to the RTO. The Company has no outstanding debt.

CONTRACTUAL OBLIGATIONS

The following table sets out the Company's contractual obligations by period:

TYPES OF CONTRACTUAL OBLIGATIONS (\$'000'S)	TOTAL	LESS THAN ONE YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
Pension benefit obligations	1,589	206	361	333	689
Mortgage payable ¹	7,369	7,369	0	0	0
Capital lease obligations ²	1,232	311	921	0	0
Other long-term obligations ³	2,407	0	661	0	1,746
Total contractual obligations	12,598	517	1,943	333	9,805

1. The Company has no plans to make payments on this mortgage, the terms of which are disputed, in the foreseeable future.

2. Capital lease obligations relate to mining equipment for Australian mining projects.

3. These obligations relate to asset retirement obligations for the period after 5 years.

LIQUIDITY

The consolidated balance sheet reflects only 45.9% of the Ity mine assets on December 31, 2007.

At December 31, 2007, the Company's balance sheet showed current assets of \$51.8 million, down \$46.4 million from year-end. This decrease is mainly explained by three major changes: the proportional consolidation of Ity assets with an impact amounting to \$9.5 million in current assets, the classification of asset-backed commercial papers for a total of \$12.0 million in long-term investments, and an increase in long-term assets related to mine development in Australia. Working capital amounts to \$32.1 million, with current assets exceeding total liabilities by \$24.9 million after deducting long-term liabilities of \$7.2 million, which still demonstrates a good position.

Regarding the Third Party ABCP issue, until the restructuring contemplated by the Framework Agreement is completed and the Company again has access to an active market to dispose of the new notes if required, the Company considers that it has access to sufficient liquidity from its cash and cash equivalent balances, operating cash flows and potential borrowings to carry out its operating and development plan in the normal course of business.

The Company is currently analysing the possibility of borrowing to pursue its two Australian project developments, and has already obtained an offer for a credit facility to cover the Australian needs; a loan agreement should be completed in the coming weeks. The Frog's Leg project in Australia should enter into production at the beginning of the third quarter of 2008 and generate positive cash flow from its operations in 2009.

The ability of our producing mines to generate cash flows is highly dependent on the price of gold. A sustained significant downturn in the realized price of gold could have a material effect on the Company's profitability and result in negative cash flows from operations.

Receipt by La Mancha of its share of AMC profits is subject to dividend approval by the board of that company, on which La Mancha representation constitutes less than a majority. It is AMC's stated policy to distribute a minimum of 70% of net income after taxes as dividends each year; in June 2007, the board of AMC approved a distribution of €10.0 million in dividends to its shareholders. On May 2007, the board of the Côte d'Ivoire subsidiary approved a dividend policy with a distribution of a minimum of 50% of net income after taxes; the Ivorian company paid out dividends of €2.29 million to its shareholders in 2007.

CAPITAL RESOURCES

As at December 31, 2007, La Mancha had contracted two lease obligations for mining equipment in Australia and had no other material contractual commitments for capital expenditures. The Company completed the feasibility study of the Frog's Leg project in Australia in December 2007. As at December 31, 2007, La Mancha transferred AUD\$24.6 million to the Australian subsidiary for the financing of its projects. La Mancha's capital project budget for the pursuit of the Australian projects over the next fiscal year is AUD\$14.7 million.

La Mancha's total commitments for exploration expenditures to maintain option agreements in good standing for 2008 are \$2.3 million in Australia.

For fiscal 2008, the Company's cash resources will be sufficient to fund the Australian projects with cash on hand or through borrowing.

RELATED-PARTY TRANSACTIONS

As described in Note 27 to the Financial Statements, the Group incurred some shared administrative services for the former corporate office in Vancouver in 2007 and in 2006 with companies controlled by or under the significant influence of board members of the Company. These services were terminated on June 30, 2007.

The Group also incurred shared administrative costs and some purchases from or through its ultimate parent company Areva in 2007 and in 2006.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures (DCP) and internal control over financial reporting (ICFR) to ensure that information disclosed in the Financial Statements and the related MD&A was properly recorded, processed, summarized and reported to the Company's Board of Directors and Audit Committee. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) have evaluated the design of La Mancha's DCP and ICFR and have concluded that the DCP and ICFR result in reasonable assurance that material information is used internally and disclosed externally reliably and in a timely manner.

As at December 31, 2006, the Chief Executive Officer and Chief Financial Officer pointed out control deficiencies with varying degrees of weaknesses that had been noted by both the new management team and auditors at the Company's subsidiary, AMC. An action plan had been proposed by AMC and La Mancha management and was implemented in 2007. Significant improvements in the controls within the subsidiary were noticed following this action plan. The CEO and CFO obtained reasonable assurance that the major control deficiencies were addressed as at December 31, 2007. The implemented action plan will be monitored and completed in 2008.

The CEO and the CFO have evaluated the DCP and concluded that the controls and procedures were effective at a reasonable assurance level for the period ended December 31, 2007. Additional measures will be put in place in 2008 in order to improve the evaluation process.

There were no changes to the Company's ICFR during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 5 to the Financial Statements sets out the critical accounting estimates and judgments employed by La Mancha in presenting its financial statements.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company has been subject to new accounting standards since January 1, 2007, namely CICA standards 1530 *Comprehensive Income*, 3855 *Recognition and Measurement of Financial Instruments*, 3865 *Hedge Accounting* (subject to the Company entering into hedging transactions, which it does not plan to do), 3861 *Financial Instruments – Disclosure and Presentation*, 1506 *Accounting Changes*, and EIC 160 *Stripping Costs Incurred in the Production Phase of a Mining Operation*.

The following accounting changes will be effective starting January 1, 2008 and will apply to the Company: 1535 *Capital Disclosure*, 3862 *Financial Instruments – Disclosures*, 3863 *Financial Instruments – Presentation*, 3031 *Inventories*.

See Note 3 to the Financial Statements for a detailed description of these new standards.

OTHER REQUIRED DISCLOSURE

Outstanding Share Data

The Company had the following issued and outstanding securities as at December 31, 2007 and March 28, 2008:

COMMON SHARES	NUMBER OF SHARES	
December 31, 2007	142,007,850	
March 28, 2008	142,007,850	
SHARE PURCHASE OPTIONS	NUMBER OF OPTIONS	NUMBER OF COMMON SHARES IF ALL OPTIONS ARE EXERCISED
December 31, 2007	1,016,000	
March 28, 2008	385,000	385,000
SHARE PURCHASE WARRANTS	NUMBER OF WARRANTS	NUMBER OF COMMON SHARES IF ALL WARRANTS ARE EXERCISED
December 31, 2007 and March 28, 2007	8,266,583	8,266,583

Information available on SEDAR

In accordance with National Instrument 51-102, readers of this MD&A are hereby advised that important additional information about the Company is available on the SEDAR website at www.sedar.com.

Montreal
April 4, 2008

LA MANCHA RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2007 AND 2006
AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

AUDITORS' REPORT

To the Shareholders of La Mancha Resources Inc.

We have audited the consolidated balance sheets of La Mancha Resources Inc. (the "Company") as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive income, changes in Shareholders' Equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Montreal, Canada

March 20, 2008

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31,

Amounts in thousands of Canadian dollars unless otherwise stated

ASSETS	NOTE	2007	2006
Current assets			
Cash and cash equivalents	10	13,062	47,991
Accounts receivable	11	7,414	9,906
Inventories	12	30,313	36,902
Income taxes recoverable		-	2,721
Future income tax asset	18 (a)	605	31
Other current assets		386	644
		51,780	98,195
Long-term assets			
Restricted cash	13	1,162	1,049
Property, plant and equipment	14	54,412	48,948
Future income tax asset	18 (a)	9,602	8,276
Investments and other assets	15	14,623	3,365
		79,799	61,638
Total assets		131,579	159,833

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

Signed on behalf of the Board:

“Michel Cuilhé”

“Johanne Duchesne”

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS AT DECEMBER 31,

Amounts in thousands of Canadian dollars unless otherwise stated

LIABILITIES	NOTE	2007	2006
Current liabilities			
Bank indebtedness		119	-
Accounts payable and accrued liabilities	16	9,784	12,263
Income taxes payable		1,847	3,411
Mortgage payable	17	7,369	6,609
Current portion of capital lease obligations	19	311	-
Provisions for other liabilities and charges	20	-	1,073
Pension and other post-service benefit obligations	21	236	-
		19,666	23,356
Long-term liabilities			
Future income tax liabilities	18 (a)	2,317	1,526
Capital lease obligations	19	921	-
Provisions for other liabilities and charges	20	2,407	2,576
Pension and other post-service benefit obligations	21	1,589	2,580
		7,234	6,682
Total liabilities		26,900	30,038
Non-controlling interests	2.2 / 9	-	9,812
Shareholders' Equity			
Common stock		41,368	41,052
Options, stock appreciation rights and warrants	23	330	372
Contributed surplus		43,838	43,788
Retained earnings		21,417	32,223
Accumulated other comprehensive income		(2,274)	2,548
Total shareholders' equity		104,679	119,983
Total liabilities and shareholders' equity		131,579	159,833

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Amounts in thousands of Canadian dollars unless otherwise stated

	COMMON SHARES (NUMBER OF)	COMMON SHARES	OPTIONS, SARS ⁽¹⁾ AND WARRANTS	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMU- LATED OTHER COMPREHEN- SIVE INCOME	TOTAL
Balance on December 31, 2005	90,000,000	257	-	3,385	33,278	(5,917)	31,003
Net earnings for the year	-	-	-	-	5,021	-	5,021
Dividends declared	-	-	-	-	(6,076)	-	(6,076)
Change in cumulative translation adjustment	-	-	-	-	-	8,465	8,465
Transfer of CMA (note 7 (c))	-	-	-	(23)	-	-	(23)
Issuance of shares upon the reverse takeover transaction (note 6)							
Deemed issuance to the Company's holders of shares, SAR ⁽¹⁾ and stock options	19,723,562	2,161	105	-	-	-	2,266
Issuance of shares to Red Lion Management	4,000,000	438	-	-	-	-	438
Issuance of shares as transaction costs	1,000,000	110	-	-	-	-	110
Issuance of shares in connection with the private placement (note 7 (a))	26,855,134	37,996	276	-	-	-	38,272
Contribution of AREVA Group loans (note 7 (b))	-	-	-	40,424	-	-	40,424
Exercise of SAR ⁽¹⁾	44,654	4	(4)	-	-	-	-
Exercise of stock options	70,000	86	(3)	-	-	-	83
Forfeiture of stock options	-	-	(2)	2	-	-	-
Balance as at December 31, 2006	141,693,350	41,052	372	43,788	32,223	2,548	119,983
Change in accounting policy – Financial Instruments (note 3)						(226)	(226)
Adjusted balance on January 1, 2007		41,052	372	43,788	32,223	2,322	119,757
Net (loss) for the year					(10,806)		(10,806)
Issuance of shares in connection with acquisition of mining properties (note 14)	4,500	3					3
Change in cumulative translation adjustment						(5,850)	(5,850)
Net change in unrealized gains and losses on available-for-sale investments						1,254	1,254
Exercise of options	310,000	313	(16)				297
Stock-based compensation			24				24
Forfeiture of options			(50)	50			-
Balance as at December 31, 2007	142,007,850	41,368	330	43,838	21,417	(2,274)	104,679
Total of retained earnings and accumulated other comprehensive income						19,143	
Accumulated other comprehensive income (loss)							
Cumulative translation adjustments						(3,302)	
Unrealized gains on available-for-sale investments (note 15)						1,028	
Balance as at December 31, 2007						(2,274)	

As at December 31, 2006, the entire balance under the header "Accumulated Other Comprehensive Income" related to cumulative translation adjustments as the new accounting standards were applied without restating prior periods.

(1) Stock Appreciation Rights ("SAR").

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,

Amounts in thousands of Canadian dollars unless otherwise stated

	2007
Net (loss)	(10,806)
Other comprehensive income (loss)	
Net change in unrealized foreign currency translation gains (losses)	(5,850)
Net change in unrealized gains (losses) on available-for-sale investments, net of income taxes of \$ 536	1,254
Comprehensive income (loss)	(15,402)

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

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31,

Amounts in thousands of Canadian dollars except per share amounts

	NOTE	2007	2006
Revenue	28	48,456	60,186
Cost of sales		(36,888)	(40,077)
Gross margin		11,568	20,109
Operating expenses			
Exploration and evaluation expenses		(7,519)	(3,919)
General and administrative expenses		(9,121)	(5,294)
Other operating expenses		(3,473)	(1,355)
Joint venture management fee recoveries		343	316
Total operating expenses		(19,770)	(10,252)
Mine operating earnings	28	(8,202)	9,857
Other income (expenses)			
Interest income	22/28	1,061	394
Gain (loss) on mortgage payable		(761)	(655)
Loss on investments	15	(1,935)	-
Foreign exchange gain (loss)		(95)	107
Other income		67	4
		(1,663)	(150)
Earnings (loss) before income tax expense and non-controlling interest		(9,865)	9,707
Income tax expense	28/18 (b)	(302)	(2,076)
Non-controlling interests		(639)	(2,610)
Net earnings (loss) for the period	28	(10,806)	5,021
Weighted average number of common shares outstanding			
Basic	24	141,935,014	103,449,920
Diluted	24	141,935,014	103,531,876
Earnings (loss) per share			
Basic		(0.076)	0.049
Diluted		(0.076)	0.049

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

Amounts in thousands of Canadian dollars unless otherwise stated

	NOTE	2007	2006
Cash flows from operating activities			
Net earnings (loss) for the period		(10,806)	5,021
Non-controlling interests		639	2,610
Depreciation and amortization	28	6,519	8,090
Future income tax expense		(2,268)	(1,265)
Loss on sale of property, plant and equipment		938	-
Net movements in provisions for liabilities and charges		(320)	1,945
Foreign exchange loss (gain)		59	(107)
Loss on mortgage payable		761	655
Loss on investments	15	1,935	-
Stock-based compensation expenses		24	-
Changes in working capital			
Inventories		280	(5,607)
Accounts receivable		(2,534)	(1,413)
Other current assets		208	(556)
Accounts payable and accrued liabilities		3,019	4,879
Income tax receivable/payable		2,032	339
Net cash generated from operating activities		486	14,591
Cash flows from investing activities			
Acquisition of property, plant and equipment		(10,055)	(4,565)
Proceeds from sale of property, plant and equipment		156	244
Exploration, evaluation and development costs capitalized		(10,009)	(5,696)
Cash and cash equivalents of SMI proportionately deconsolidated	9	(1,102)	-
Net change in restricted cash		(122)	140
Acquisition of intangible assets		(20)	-
Acquisition of investments		(48)	-
Acquisition of investments in Asset-Backed Commercial Papers (ABCP)	15 (b)	(12,000)	-
Net cash used in investing activities		(33,200)	(9,877)
Cash flows from financing activities			
Proceeds from borrowings		-	9,039
Repayments of borrowings		-	(13,226)
Net change in bank indebtedness		126	(82)
Repayment of capital lease obligations		(91)	-
Proceeds from issuance of stock		297	83
Proceeds from private placement	6	-	38,272
Cash acquired on reverse takeover	7 (a)	-	1,461
Dividends paid to Company's shareholders		-	(6,097)
Dividends paid to non-controlling interests		(1,657)	-
Net cash provided by (used in) financing activities		(1,325)	29,450
Net increase (decrease) in cash and cash equivalents		(34,039)	34,164
Cash and cash equivalents at beginning of the period		47,991	12,703
Effect of exchange rate changes on cash		(890)	1,124
Cash and cash equivalents at end of the period		13,062	47,991
Supplemental disclosures of Cash Flow Information			
Cash paid during the period for:			
Interest	22	15	203
Income tax		1,848	3,002

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

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1. NATURE OF ACTIVITIES

La Mancha Resources Inc. (the "Company") was incorporated on October 10, 1996 under the Company Act of the Province of British Columbia in Canada. Through its subsidiaries and joint ventures, collectively "the Group", the Company conducts gold mining operations and/or exploration in Argentina, Sudan, the Ivory Coast and Australia. As is further described in notes 2 and 6, the Group's operations reflect the continuation of the combined operations of Compagnie Minière Or SA and La Mancha Resources Australia Pty Ltd (formerly Mines and Resources Australia Pty Ltd ("MRA")), on a combined basis as "AREVA Gold". Prior to September 28, 2006, Compagnie Minière Or SA and MRA were indirect wholly owned subsidiaries of the AREVA Group, a multinational group based in France active in the uranium mining, nuclear engineering and electricity transmission industries.

A portion of the Group activities will be directed to the search for and the development of new mineral deposits, and the producing or the mining properties acquired through the Group and significant capital investment will be required to achieve successful commercial production from such properties. In addition significant capital investment may be required in order to maintain or expand the operations of the Group. There is no assurance that the Group will have, or be able to raise, the required funds to engage in these activities and this could have an impact on the recoverability of a portion of the assets which is partly dependent on this assumption.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect the following significant accounting policies. These policies have been consistently applied to all the years presented, unless otherwise stated.

These consolidated financial statements also reflect a change in reporting currency as is further described below. All dollar amounts are reported in Canadian funds unless otherwise indicated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies (Note 5).

Certain items in these consolidated financial statements have been reclassified or shown separately to conform to the presentation adopted in the current year.

2.2 BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its subsidiaries and the proportionate share of each of the assets, liabilities, revenues, expenses and cash flows of its joint ventures. Intercompany transactions and related balances are eliminated upon consolidation. Since September 28, 2006, the Group's principal subsidiaries and joint ventures and their percentages of ownership interest are summarized as follows:

	PERCENTAGE OF INTEREST %
Compagnie Minière Or S.A., domiciled in France ("Cominor")	100.0 ⁽¹⁾
Ariab Mining Company, domiciled in Sudan ("AMC")	40.0 ⁽¹⁾⁽²⁾
Société des Mines d'Ity, domiciled in Côte d'Ivoire ("SMI")	45.9 ⁽¹⁾⁽³⁾
La Mancha Resources Australia Pty Ltd, domiciled in Australia ("LMRA")	100.0 ⁽¹⁾
Compania Minera Esperanza S.A., domiciled in Argentina ("Esperanza")	100.0
Minera Patagonia S.A., domiciled in Argentina ("Patagonia") – Note 17	100.0

(1) On a combined and consolidated basis, these entities constituted AREVA Gold.

(2) Joint venture interest

(3) As further described in Note 5, until May 25, 2007, the Company held a controlling interest of 51% in SMI. Since that date, the Company's ownership has been reduced to 45.9% and this investment is from that date accounted for as a joint venture interest using the proportionate consolidation method. This change is applied prospectively and amounts for periods or as of dates prior to May 25, 2007 have not been restated.

All financial information for periods or as of dates prior to September 28, 2006 reflects the operations of AREVA Gold.

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(a) Subsidiaries

Subsidiaries are all entities over which the Company has the power to determine its strategic operating, investing and financing policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company when these subsidiaries constitute businesses as defined under Canadian GAAP. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred.

(b) Transactions and non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the statement of operations.

(c) Joint ventures

The Group's interests in jointly controlled entities and operations are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognizes the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other partners. The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

2.3 FOREIGN CURRENCY TRANSLATION

(a) Reporting currency

In conjunction with the reverse takeover transaction described in Note 6, the Group selected the Canadian dollar as its reporting currency. Previously, Cominor used the euro as its reporting currency and LMRA used the Australian dollar. Financial information is now presented in Canadian dollars for all periods shown, using the exchange rate applicable at the balance sheet date for assets and liabilities, and the average exchange rate of the corresponding periods for the consolidated statements of operations and cash flows.

(b) Group companies

The results and financial position of the Group entities that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of operations are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting translation differences are recognized in other comprehensive income ("OCI").

On consolidation, translation differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recorded in shareholders' equity in OCI. When a foreign operation is sold or there is a reduction in the net investment in the foreign operation, a proportionate share of translation differences that were previously recorded in OCI are recognized in the statement of operations as part of the gain or loss on sale.

2.4 PROPERTY, PLANT AND EQUIPMENT

Exploration and evaluation costs and mine development costs

(a) Exploration and evaluation expenditures

Exploration and evaluation expenditures comprise costs which are directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling pre-feasibility and feasibility studies; and
- costs incurred in acquiring mineral rights.

Exploration and evaluation expenditures in relation to separate areas of interest incurred after the acquisition of mineral rights are capitalized in the year in which they are incurred and are carried at cost less accumulated impairment losses where the following conditions are satisfied:

- the rights of tenure of the area of interest are current; and
- at least one of the following conditions are also met:
 - the exploration and evaluation expenditures are expected to be recuperated through successful development and exploration of the area of interest, or alternatively, by its sale, or
 - the exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

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Exploration and evaluation expenditures that do not meet the conditions for capitalization described above are expensed as incurred.

(b) Mine development costs

Where a decision is made to proceed with development, accumulated Exploration and Evaluation expenditures are tested for impairment and transferred to Mine Development. These costs are amortized over the life of the reserves using the unit of production method associated with the area of interest once mining operations have commenced (see 2.6 below).

(c) Stripping costs

Stripping (i.e. overburden and other waste removal) costs incurred in the development of a mine before production commences are capitalized as part of the cost of constructing the mine and included in mining development and subsequently amortized over the life of the operation, using the unit of production method. The Group expenses stripping costs incurred subsequently, during the production stage of its operations, unless the stripping activity can be shown to represent betterment to the mineral property in which case they are capitalized and amortized over the reserves that directly benefit from the specific stripping activity.

Other Property, plant and equipment

Other types of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of operations during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated using the straight-line method to allocate cost to residual values over their estimated useful lives, as follows:

• Software	1 to 3 years
• Buildings	20 to 50 years
• Machinery & equipment	3 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of operations.

2.5 IMPAIRMENT OF LONG-LIVED ASSETS

Impairment tests are performed when there is an indication that the carrying value of property, plant and equipment or intangible assets may not be recoverable. If impairment is required, the asset is written down to its fair value. Such impairments are not subsequently reversed.

Properties at the exploration and evaluation stage are reviewed by management on a property-by-property basis at each financial statement date to determine if they have become impaired. For those properties, the ultimate recoverability of the amounts capitalized is dependent upon the delineation of economically recoverable ore reserves, the ability to obtain the necessary financing to complete their development and the ability to realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Group's investments in various projects are based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

For property, plant and equipment other than exploration and evaluation stage properties, an asset group is the smallest identifiable group of assets and liabilities generating cash inflows which are largely independent of the cash inflows from other assets or groups of assets and liabilities. The estimates used for impairment reviews are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of CICA Section 3063, *Impairment of Long-lived Assets*. Future cash flows are based on:

- estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future gold prices; and
- future cash costs of production, capital expenditure, close down, restoration and environmental clean-up.

The cash flow forecasts are based on best estimates of expected future revenue and costs. These may include net cash flows expected to be realized from extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proved or probable ore reserves. Such non-reserve material is included where there is a high degree of confidence in its economic extraction. This expectation is usually based on preliminary drilling and sampling of areas of mineralisation that are contiguous with existing reserves. Typically, the additional evaluation to achieve reserve status for such material has not yet been done because this would involve incurring costs earlier than is required for the efficient planning and operation of the mine. The expected future cash flows of asset groups reflect long-term mine plans which are based on detailed research, analysis and iterative modelling to optimise the level of return from investment, output and sequence of extraction. The plan takes account of all relevant characteristics of the ore body, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The mine plan is therefore the basis for forecasting production output in each future year and the related production costs.

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The Group's cash flow forecasts are based on assessments of expected long-term gold prices. These assessments may differ from current price levels and are updated periodically.

Cost levels incorporated in the cash flow forecasts are based on the current long-term mine plan for the asset group. For impairment reviews, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business. Section 3063 includes a number of restrictions on the future cash flows that can be recognized in respect of future restructurings and improvement-related capital expenditure.

The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustment for the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows.

2.6 DETERMINATION OF ORE RESERVES

The Group's ore reserves and mineral resources are estimated based on information compiled by the Group's qualified employees. The Group uses the CIM definition standards for reporting of the exploration results, mineral resources and ore reserves. Reserves determined in this way are used in the calculation of depreciation, amortization and impairment charges, and for forecasting the timing of the payment of close down and restoration costs and clean-up costs.

In assessing the life of a mine for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction. There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of gold, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being updated.

2.7 EMBEDDED DERIVATIVE FINANCIAL INSTRUMENTS

Any embedded derivative financial instrument requiring separate accounting identified by the Company is recorded on the balance sheet at fair value and changes in the fair value of such embedded derivative instruments is recognized immediately in the statement of operations.

The Group accounts for its gold ounce denominated mortgage payable using the undiscounted dollar value of the aggregate ounces of gold for future delivery based on the gold price and foreign exchange rate in effect as of each balance sheet date. Changes in the carrying amount are recognized in the statement of operations under Gain (loss) on mortgage payable.

2.8 INVESTMENTS

Effective January 1, 2007, investments in publicly traded equity securities are classified as available-for-sale investments and are classified under Investments and other assets on the Consolidated Balance Sheet. These investments are recognized at fair value. Unrealized gains and losses are recognized, net of income taxes, if any, in OCI. Upon the disposal or impairment of these investments, these gains or losses are reclassified in the consolidated statement of earnings. Furthermore, when unrealized losses on available-for-sale securities are determined to be other than temporary, the cost of the financial asset is written down to its fair value with the change recorded in Gains (losses) on investments in the consolidated statement of operations.

The Group recognizes investment transactions on the settlement date.

Until December 31, 2006, investments were recorded at cost unless impairment in market value was considered other than temporary, in which case they were recorded at their net realizable value.

2.9 INVENTORIES

Raw materials and consumable stores are valued at the lower of purchase price and replacement cost.

Partly processed and saleable products are valued at the lower of cost of production and the net realizable value. For this purpose the costs of production include:

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- amortization of exploration and evaluation intangibles and depreciation of property, plant and equipment used in the extraction and processing of ore; and
- production overheads, based on normal operating capacity.

Stockpiles represent ore that has been extracted and is available for further processing. If there is significant uncertainty as to when the stockpiled ore will be processed it is expensed as incurred. Where the future processing of this ore can be predicted with confidence, e.g. because it exceeds the mine's cut-off grade, it is valued at the lower of cost and net realizable value taking into account estimated costs to complete the processing.

The volume of ore in stockpiles is estimated from one reporting period to the next and is subject to periodic measurement. Significant adjustments can result from these periodic measurements.

Finished goods are valued at the lower of cost and net realizable value on a weighted-average cost basis.

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2.10 TRADE RECEIVABLES

Trade receivables are recognized at cost, less any provisions for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is recognized in the statement of operations.

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, term deposits and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash consists of cash subject to restrictions that prevent its use for current purposes.

2.12 BORROWINGS

Borrowings are recognized initially at fair value. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of operations over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 FUTURE INCOME TAXES

Future income taxes are recognized for the tax consequences of temporary differences by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on future income taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future income tax assets are recognized to the extent that it is more likely than not that future taxable income will be available against which the temporary differences can be utilized.

Future income taxes are recorded on temporary differences arising from the difference between the accounting basis and the income tax cost basis of investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 EMPLOYEE BENEFITS

(a) Defined benefit plans

The Group records liabilities for its commitments for retirement, early retirement, severance pay, medical insurance, job-related awards, accident and disability insurance, and other related commitments, whether for active personnel or for retired personnel.

Benefit costs for defined benefit plans are estimated using the projected unit method. Under this method, accrued pension benefits are allocated among service periods based on the plan vesting formula. If service in subsequent years results in accrued benefit levels that are substantially higher than those of previous years, the Group must allocate the accrued benefits on a straight-line basis.

The amount of future benefit payments to employees is determined based on salary trend assumptions, retirement age and mortality, discounted to present value based on interest rates for long-term bonds from high-quality issuers.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. The cost of plan changes is recognized over a period not exceeding the employees' expected average remaining working lives.

(b) Defined contribution plans

The Group sponsors defined contribution pension plans in Canada, Australia and Ivory Coast. The pension expense for these plans is equal to the Group's contribution.

(c) Bonus plans

The Group recognizes a liability and an expense for bonuses. The Group recognizes a provision when it is contractually obliged or where there is a past practice that has created a constructive obligation.

2.15 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(a) Assets retirement obligations

Close-down and site-restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the period when the obligation arising from the related disturbance occurs based on the net present value of estimated future costs. When the provision is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset and subsequently amortized over the life of the asset. Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. Costs are estimated based on a closure plan. Although the ultimate cost to be incurred is uncertain, the Group estimates their respective costs based on feasibility and engineering studies using current restoration standards and techniques.

Movements in the provision for close-down and site restoration costs which relate to a specific asset, other than the accretion of the discount, are capitalised within property, plant and equipment and then depreciated over the useful lives of the assets to which they relate. The costs include those resulting from new disturbance, updated cost estimates and changes to the estimated lives of operations. Accretion of the discount applied in establishing the net present value of the provisions is charged to the statement of operations in each period.

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For costs that are not related to a specific asset, provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the balance sheet date. These costs are charged to the statement of operations. Movements in the environmental clean-up provisions are presented as an operating cost.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the statement of operations.

(b) Provisions for litigations

Provisions for litigations result of pending or threatened litigation involving uncertainty as to possible loss. This accounting treatment recognizes that the likely incurrence of a liability is related to a condition or situation existing at the end of the reporting period and not to the confirming future event.

(c) Other Provisions

Other provisions include provisions for risk which result of an uncertainty in recovering a portion of the value added Tax on purchases concerning the Sudanese subsidiary.

2.16 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of gold, and is recognized net of sales tax. Sales revenue is recognized when persuasive evidence of an arrangement exists, upon the transfer of the ownership risks and benefits to the buyer which is generally simultaneous with delivery, when the price is fixed or determinable, and when the Company has reasonable assurance with respect to the measurement and collectibility.

2.17 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis over the term of the lease.

2.18 DIVIDENDS

Prior to September 28, 2006, in accordance with the corporate statutes of the AREVA Gold entities, dividends to AREVA Gold's shareholders were recognized as a liability in the Group's financial statements in the period in which the dividends were approved by the respective AREVA Gold shareholders. Since September 28, 2006, dividends would be recorded as liabilities when declared by the Board of Directors of the Company.

2.19 STOCK-BASED COMPENSATION

The Group records stock-based compensation, including awards of stock options and equity-settled stock appreciation rights, using the fair value based method of accounting. Under this method, stock options and direct awards of stock granted to employees and directors are recorded at fair value on the date of grant and the associated expense is recognized over the vesting period.

2.20 EARNINGS PER SHARE

Basic earnings or loss per share are computed using the weighted average number of common shares outstanding during the periods. Provided that they are not anti-dilutive, diluted earnings or loss per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants and any unamortized stock-based compensation amounts are used to repurchase common shares at the prevailing market rate.

2.21 PROPERTY OPTION AGREEMENT

From time to time, the Company may acquire or dispose of a property pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the option holder, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

3. NEW ACCOUNTING STANDARDS

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

Financial Instruments

On January 1, 2007, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections in relation with financial instruments: Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", Section 3861 "Financial Instruments – Disclosure and Presentation", and Section 1506 "Accounting Changes".

The Company has applied these changes retrospectively without restatement, except for the reclassification of the cumulative translation adjustments within Other Comprehensive Income and Accumulated Other Comprehensive Income that have been applied retrospectively with restatement as further described below.

Comprehensive Income

Section 1530 introduced a new requirement to present certain revenues, expenses, gains and losses arising from transactions and other events from non-owner sources, that otherwise would not be immediately recorded in income, in a comprehensive income statement which is now required to constitute a complete set of financial statements. The accumulated effect of comprehensive income or loss can now be found in equity on the Consolidated Balance Sheet as Accumulated Other Comprehensive Income. The amounts previously recorded for Cumulative Translation Adjustments have been retrospectively reclassified within Other Comprehensive Income.

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Equity

Section 3251, "Equity", replaced Section 3250, "Surplus". It describes standards for the presentation of equity and changes in equity for the reporting period as a result of the application of Section 1530, "Comprehensive Income".

Financial Instruments – Recognition and Measurement

Section 3855 expands on Handbook Section 3861 "Financial Instruments – Disclosure and Presentation," by providing standards for recognition, derecognition and measurement of financial instruments. Under this Section, available-for-sale financial assets, assets and liabilities held for trading and derivative financial instruments including some that are embedded in other contracts are measured and accounted for at fair value. Financial assets and liabilities classified as loans and receivables, investments held-to-maturity and non-trading financial liabilities are carried at amortized cost using the effective rate. Realized gains and losses on all financial assets and liabilities are recognized in the Consolidated Statements of Operations. Unrealized gains and losses on financial assets that are available for sale are recognized in other comprehensive income until their realization, after which these amounts are recognized in the Consolidated Statement of Income. Available-for-sale financial assets are however subject to assessment for impairment whereby unrealized losses would be recorded in the Consolidated Statement of Operations. This section was applied retrospectively on January 1, 2007, without restating the comparative figures.

Following the adoption of Section 3855, the company classified its financial instruments as follows:

Cash and cash equivalents	Held for trading
Investments in listed equity securities	Available-for-sale securities
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

The only transition adjustment that was recorded by the Company was with respect to its investments in listed equity securities. Those investments which were recorded in Other Assets at cost are now classified as Investments at fair value on the Consolidated Balance Sheet. Their carrying amount was reduced by \$322,000 and a corresponding adjustment was recorded in Accumulated Other Comprehensive Income, net of future income taxes of \$96,000.

With respect to the gold ounce denominated mortgage payable, it is considered to contain an embedded derivative representing a swap on gold. As the loan's payment terms have not been adhered to, the entire balance is considered current and accordingly the term of the embedded gold swap is considered to be due on demand. Consequently, the fair value of the embedded derivative included in the debt's carrying amount is measured using the spot price at the balance sheet date.

Other than the adjustment described above for the investments in listed equity securities, the recognition, derecognition and measurement methods used to prepare the consolidated financial statements have not changed from the methods of periods prior to the effective date of

the new standards. Consequently, there were no further adjustments to record on transition.

Hedges

Section 3865 replaces and expands on the provisions required by Accounting Guideline 13 ("AcG-13"), "Hedging Relationships," and the hedging guidance in former Section 1650, "Foreign Currency Translation." This Section describes when and how hedge accounting can be applied as well as the necessary disclosures when it is applied. Under this new statement, hedges are designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation.

- For a fair value hedge, the gain or loss on the hedging derivative is recognized in net income. In addition, the change in fair value of the hedged item attributable to the hedged risk is also recognized in net income with the offsetting adjustment to the carrying value of the hedged item.
- For a cash flow hedge or for a hedge in a net investment in a self-sustaining foreign operation, the effective portion of the hedging item's gain or loss is initially reported in Other Comprehensive Income and subsequently reclassified to net income when the hedged item affects net income.
- Any hedge ineffectiveness is recorded in the consolidated statement of income.

As the Company does not currently carry on any hedging activities, the impact of the adoption of this new section had no effect on the Consolidated Financial Statements of the Company.

Financial Instruments – Disclosure and Presentation

Section 3861 replaces and expands on the disclosure provisions of Section 3860 with the same title in order to provide additional disclosures consistent with the new classification of financial instruments required by Section 3855 described above. The presentation requirements with respect to debt and equity have however remained unchanged.

Accounting Changes

Effective January 1, 2007, the Company adopted CICA Handbook Section 1506 "Accounting Changes". This Section establishes criteria for changes in accounting policies, accounting treatment and disclosures regarding changes in accounting policies, estimates and corrections of errors. In particular, this Section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this Section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this Section had no further effects on the financial statements for the period ended December 31, 2007.

Stripping Costs

Effective January 1, 2007, the Company adopted EIC-160 "Stripping Costs Incurred in the Production Phase of a Mining Operation" issued by the CICA. EIC-160 requires that stripping costs incurred in the production phase of mining operations be considered as variable production costs, unless

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they can be shown to represent a betterment to the mineral property, in which case they are to be capitalized and amortized in a systematic and rational manner over the reserves that directly benefit from the specific stripping activity. The company has historically accounted for all stripping costs incurred during the production time as variable production costs and accordingly does not carry unamortized balances of capitalized stripping costs incurred in the production phase. The Company has adopted EIC-160 prospectively and it has had no effect on the financial statements for the period ended December 31, 2007.

FUTURE ACCOUNTING CHANGES

Capital Disclosure

The CICA issued Section 1535, "Capital Disclosures". This standard establishes guidelines for disclosure of information regarding an entity's capital which will enable users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard harmonizes with the disclosure requirements of International Financial Reporting Standards ("IFRS"). The new requirements will be effective starting January 1, 2008. The Company is presently evaluating the impact of these new standards.

Financial Instruments – Disclosures and Financial Instruments – Presentation

The CICA issued Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation", which replace Section 3861, "Financial Instruments – Disclosure and Presentation". The new disclosure standard requires the disclosure of additional detail of financial asset and liability categories as well as a detailed discussion on the risks associated with the company's financial instruments and how management manages those risks. This standard harmonizes with the disclosure requirements of IFRS. The presentation requirements are carried forward unchanged. These new standards will be effective starting January 1, 2008. The Company is presently evaluating the impact of these new standards.

Inventories

The CICA issued Section 3031, "Inventories", which will replace existing Section 3030 with the same title and will harmonize accounting for inventories under Canadian GAAP with IFRS. This standard requires that inventories should be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including allocation of overheads and other costs. The standard also requires that

similar inventories within a consolidated group be measured using the same method. It also requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new Section is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. As at January 1, 2008, the impact of this new policy will increase total inventories by \$336,000 and retained earnings by \$302,000 (net of future income taxes of \$34,000).

Going concern

The CICA amended Section 1400, "General Standards of Financial Statement Presentation", to require management to make an assessment of an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. As at December 31, 2007, it was determined that this new policy will not have any significant impact on the company's results.

Goodwill and intangible assets

Issued in February 2008, Section 3064, "Goodwill and intangible assets", will replace Section 3062, "Goodwill and other intangible assets", and Section 3450, "Research and development costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

International Financial Reporting Standards

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards ("IFRS") over a transition period that is expected to be completed by 2011. The Company will convert to these new standards according to the timetable set with these new rules.

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4. FINANCIAL RISK MANAGEMENT

4.1 FINANCIAL RISK FACTORS

From time to time the Group may use derivative instruments to manage its exposure to foreign exchange risk and fluctuations in commodity prices. Risk management is carried out by the Group financial management. The Group financial management identifies, evaluates and hedges financial risks. The Group overall risk management policies follows the AREVA Group policies covering specific areas, such as foreign exchange risk, commodity price risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. When needed, the Group financial management will cooperate with the AREVA Group Treasury department to assist and book coverage for identified risks.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency transactions, primarily with respect to the US dollar. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the entity's functional currency. To manage its foreign exchange risk arising from future commercial transactions, the Group sometimes can use currency forwards and swaps. The Group currently doesn't use any hedge on foreign exchange risk. Gold price is based on USD price per ounce, while sales of SMI and AMC are invoiced in Euros considering that most of their production costs are in Euros. However, a portion of the cash resulting from these sales may be used for the payment of dividends and is not hedged.

The Group is exposed to foreign exchange translation risk arising from its net investments in its African joint ventures and Australian subsidiaries whose functional currency are the euro and the Australian dollar, respectively. Those risks have historically not been hedged.

(b) Commodity price risk

The Group is exposed to commodity price risk mainly arising from gold sales and energy supply and may use financial instruments, including forward sales agreements, to reduce its exposure to commodity price volatility. The Group currently doesn't use any hedge on gold price.

(c) Credit risk

Counterparty risk associated with financial instruments is monitored by the Group financial management. The AREVA Group Treasury department comes in support for the commitments and the implementation of a series of procedures that specify the limits and characteristics of the counterparty for each type of instrument.

The Group has a higher concentration of credit risk, with regard to its trade and other receivables, given the small number of customers; however, this risk is compensated by a very short period of payment and a close monitoring of each delivery.

(d) Interest rate risk

The Group has had from time to time borrowings that are at both fixed and floating rates and maintains excess cash balances in short term investments. The Group considers interest rate risk to be minimal.

(e) Market risk

The Group has made some investments in listed equity securities quoted on the Australian Stock Exchange. The Group is exposed to market risk arising from these investments.

4.2 FAIR VALUE ESTIMATION

The fair value of financial instruments is estimated using standard methods based on quoted prices, observable data or by a recognized evaluation method at the balance sheet date.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Many of the amounts included in the financial statements involve the use of judgment and/or estimation. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ significantly from the amounts included in the financial statements. Information about such judgments and estimation is contained in the accounting policies and/or the Notes to the financial statements, and the key areas are summarised below. Areas of judgment that have the most

significant effect on the amounts recognized in the financial statements are as follows:

- determination of ore reserves and estimation of ore stockpiles,
- uncertain tax and royalties positions,
- capitalisation and impairment of exploration and evaluation costs,
- review of asset carrying values and impairment charges;
- estimation of amount and timing of future expenditures associated with close-down, site restoration and environmental clean-up;
- estimation of the fair value of unquoted securities.

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6. REVERSE TAKEOVER

On September 28, 2006, the Company completed the acquisition, from indirect wholly owned subsidiaries of the AREVA Group, of all the issued and outstanding shares of MRA and Cominor in exchange for the issuance by the Company to the AREVA Group of 90,000,000 common shares and 7,000,000 warrants to acquire common shares at a price of \$2.00 per share until September 28, 2008. As a result of this transaction, the AREVA Group has received enough common shares to effect a reverse takeover of the Company and its subsidiaries. Accordingly, these financial statements reflect the accounts of AREVA Gold at their historical carrying value as it is deemed to be the acquiring entity while the consolidated assets, liabilities, results of operations and cash flows associated with the former activities of the Company are reflected in these consolidated financial statements only since the closing date.

The consolidated operations of the Company prior to the transaction did not constitute a business as defined under Canadian GAAP and therefore the reverse takeover does not constitute a business combination. Accordingly, the reverse takeover is accounted for as a capital transaction reflecting the acquisition of the consolidated assets and the assumption of the consolidated liabilities associated with the former activities of the Company, each such asset and liability being measured based on their respective estimated fair values.

The estimated fair value of the assets acquired and liabilities assumed as at September 28, 2006 under the reverse takeover is detailed as follows:

Assets		
Cash and cash equivalents		1,461
Accounts receivable		265
Other current assets		32
Mineral properties		7,103
Other property, plant and equipment		84
Liabilities		
Accounts payable and accrued liabilities		(178)
Mortgage payable		(5,953)
Net assets acquired		2,814

The consideration issued as part of the reverse takeover has been allocated as follows:

19,723,562	Common shares of the Company outstanding on September 28, 2006	2,161
4,000,000	Common shares of the Company issued to Red Lion Management Inc.	438
1,000,000	Common shares of the Company issued as transaction costs	110
2,541,000	Fully vested share purchase options of the Company outstanding on September 28, 2006	101
150,000	Fully vested equity-settled stock appreciation rights	4
		2,814

The allocation of the net assets acquired between the different instruments issued reflects the relative estimated fair value of the respective instruments. The fair value of the options and stock appreciation rights

was based on the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 4.1%, expected volatility of 40%, expected dividend of nil and expected life of 3.1 years.

7. OTHER SIGNIFICANT TRANSACTIONS RELATED TO THE REVERSE TAKEOVER

(a) Financing and share issuance

On June 7, 2006, the Company had completed a private placement in the United Kingdom and Canada of 26,855,134 subscription receipts at a price of \$1.50 per subscription receipt for gross proceeds of \$40,282,701 and net proceeds of \$38,272,331. The proceeds of the private placement had been held in escrow and were to be released, amongst other conditions, only upon the eventual closing of the reverse takeover described in Note 6. Upon the closing of the reverse takeover on September 28, 2006, all the conditions of the private placement had been met and, accordingly,

each subscription receipt was automatically exchanged for one common share of the Company without payment of additional consideration.

In addition to the cash commission and fees paid to the private placement agent, 1,266,583 warrants to purchase common shares of the Company were issued to the agent. These warrants have an exercise price of \$2.00 per share and can be exercised until September 28, 2008. The fair value of the warrants was estimated based on the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.1%, expected volatility of 40%, and expected life of 2 years.

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(b) Contribution of loans by the AREVA Group

Upon the closing of the reverse takeover, indirect wholly owned subsidiaries of the AREVA Group contributed their loans receivable from Cominor and MRA to the Company for no additional consideration, thus in effect converting these liabilities of AREVA Gold into equity of the Group (Note 27).

(c) Transfer of Cominor interest in Compagnie Minière Afrique ("CMA")
 Compagnie Minière Afrique ("CMA") was a 90% owned subsidiary

of Cominor that conducted gold mining activities in the Ivory Coast between 1999 and 2004 and which was in the process of liquidating its remaining assets and liabilities since then. In anticipation of the completion of the reverse takeover, on September 28, 2006, Cominor transferred the shares held in the capital of CMA to a wholly owned subsidiary of the AREVA Group. In exchange for this transfer, Cominor benefited from a reduction of its financial debt for €85,500 (\$123,000). The carrying amounts of the assets and liabilities of CMA as at the date of transfer were as follows.

Assets	
Cash and cash equivalents	55
Trade and other accounts receivable	160
Liabilities	
Accounts payable and accrued liabilities	(27)
Provisions for other liabilities and charges	(11)
Non-controlling interest	(17)
Net assets transferred	160

As this transaction was entered into with entities under common control, the transfer has been recorded at the carrying amount and the excess of

\$23,000 (net of taxes of \$14,000) of the net assets transferred over the net proceeds have been recorded in contributed surplus.

8. ACQUISITION OF THE REMAINING INTEREST IN THE MUNGARI WEST JOINT VENTURE

On July 19, 2006, MRA entered into a definitive agreement with its joint venture partner to acquire the remaining 49% undivided interest in the assets and liabilities of the Mungari West joint venture in Western Australia where the White Foil mine is located.

The transaction closed on September 27, 2006 for cash consideration of AUD\$2.5 million (\$2.08 million) plus stamp duties and transaction costs totalling AUD\$129,000 (\$107,000).

The estimated fair value of the assets acquired and liabilities assumed is as follows:

Mineral properties	2,728
Accounts payable	(107)
Asset retirement obligations	(434)
Total purchase price	2,187

9. RENEWAL OF MINING PERMIT OF THE ITY MINE AND TRANSFER OF OWNERSHIP INTEREST IN SOCIÉTÉ DES MINES D'ITY

On May 25, 2007, the Company reached an agreement with the authorities of the Republic of Côte d'Ivoire regarding the renewal of the mining permit of the Ity mine owned by SMI. The agreement was made in accordance with the Ivorian *Code Minier* of 1995. The *Code Minier* requires the holder of the mining permit to grant a 10% equity interest to the State in exchange for the first renewal of such mining permit. In order to meet the requirements of the *Code Minier*, Cominor and SODEMI, a state company of the Republic of Côte d'Ivoire and the then non-controlling shareholder of SMI directly transferred to the State 10% of their respective interest in SMI on behalf of SMI. The Company's interest in SMI has therefore been reduced from 51% to 45.9%. The Company's 45.9% share of estimated fair

value of the renewed mining license has been estimated to approximate the carrying value of the 5.1% interest in SMI transferred to the State and accordingly no gain or loss has been recorded in the income statement in connection with this transaction.

In conjunction with this transfer, a new shareholders' agreement was entered into with SODEMI and the State which grants the shareholders joint control over SMI. As the Company's control on SMI has changed from unilateral control to joint control, the Company's 45.9% interest in SMI has been accounted through proportionate consolidation since May 25, 2007. Financial statements for prior periods have not been restated.

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10. CASH AND CASH EQUIVALENTS

AS AT DECEMBER 31	2007	2006
Cash at bank and on hand	11,337	8,566
Term deposits	1,126	7,903
Bankers' acceptances	599	31,522
	13,062	47,991

As at December 31, 2007, term deposits and bankers' acceptances were issued by one Canadian bank totalling \$50,000 and \$599,226 respectively, bearing interest at a weighted average rate of 4.3% and maturing until March 2008.

As at December 31, 2006, short term bank deposits included bankers' acceptances issued by two large Canadian banks totalling \$31,522,000 bearing interest at a weighted average rate of 4.3% and maturing at various dates until March 2007.

11. ACCOUNTS RECEIVABLE

AS AT DECEMBER 31	2007	2006
Trade receivables	3,283	1,883
VAT and sales taxes receivable	3,271	4,544
Other receivables	860	3,479
	7,414	9,906

The carrying values of trade and other receivables approximate fair value.

12. INVENTORIES

AS AT DECEMBER 31	2007	2006
Raw materials and consumable stores	5,039	7,104
Work in progress, including stockpiles	23,682	28,576
Finished goods	1,592	1,222
	30,313	36,902

13. RESTRICTED CASH

Restricted cash represents funds deposited with a banking institution as security for banking guarantees given on LMRA's behalf. In connection with its mining operations and the related rehabilitation commitment, as operator/manager of the White Foil mine and Mungari joint ventures (Frog's Leg mine), LMRA has provided financial assurance to the Department of Industry and Resources in Western Australia. As at December 31, 2007, letters of guarantee totaling \$1,005,937 (2006: \$1,048,907) have been issued by LMRA's banks on behalf of the company and the joint venture.

In respect of this amount, \$401,359 (2006: \$421,254) is payable by the joint venture partners for which LMRA has recourse against them by way of cross-company guarantees which may be resorted to in the event that they were to fail to their obligations.

Furthermore, LMRA has provided a financial assurance to the owner of the Perth office in connection with the occupancy lease. As at December 31, 2007, a letter of guarantee totalling \$ 156,060 (2006: none) has been issued by LMRA's banks on behalf of the company.

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14. PROPERTY, PLANT AND EQUIPMENT

AS AT DECEMBER 31	2007	2006
Capitalized exploration and evaluation costs	7,136	7,103
Capitalized mine development costs ^[1]	68,386	66,781
Software	557	174
Land and buildings	3,166	5,620
Machinery and equipment ^[2]	71,763	79,939
Capital work in progress	614	656
	151,622	160,273
Accumulated amortization	(97,210)	(111,325)
	54,412	48,948

[1] Includes \$1,840,000 (2006: none) of Capitalized mine development costs corresponding to the renewal of mining permit of the Ity mine less accumulated depreciation of \$162,000 (2006: none) for a net book value of \$1,678,000 (2006: none). See Note 9 – renewal of mining permit of the Ity mine and transfer of ownership interest in Société des mines d'Ity.

[2] Includes \$1,322,000 (2006: none) of equipment under two capital lease contracts less accumulated depreciation of \$44,000 (2006: none) for a net book value of \$1,278,000 (2006: none). See Note 19 – Capital lease obligations.

Capitalized exploration and evaluation costs

Capitalized exploration and evaluation costs are comprised of wholly owned mining rights, undivided interests in properties and deferred exploration and evaluation costs, as follows:

AS AT DECEMBER 31	2007	2006
Argentina		
Hualilan Project (Note 17)	5,953	5,953
Atlas Project	400	400
La Ortiguita ^[1]	783	750
	7,136	7,103

[1] A Letter of Intent (LOI) was signed September 8, 2005 between the Company and TNR Gold Corp., owner of the Ortiguita mining property rights. A definitive agreement was signed on December 21, 2007. According to this agreement, La Mancha may acquire a 42.66% Earned interest by making some cash payments, shares issuances and by completing a program of expenditures on the mining property. These commitments should respect a schedule which is planned until July 2009. Following these commitments, the Company made a payment of USD\$28,000 and issued 4,500 shares to TNR Gold Corp. in July 2007.

The future commitments are scheduled as follows:

	CASH PAYMENTS	SHARES TO BE ISSUED	EXPENDITURES PROGRAM (PER YEAR)
July 15, 2008	USD\$33,000	27,000	USD\$450,000
July 15, 2009	USD\$43,000	49,500	USD\$1,080,000

The Group may elect at any time to terminate the agreement with TNR Gold before completing all the scheduled commitments. In this case, the Group will acquire no Earned interest and will have no further obligations toward TNR Gold with respect to this agreement. The Group may also increase its participation up to 75% following the completion of the first portion of this agreement. In the event of a commercial production of the property, the Group will have to pay to TNR Gold a Net Smelter Royalty of 1.5% on the total production.

Capitalized mine development costs

Capitalized mine development costs include accumulated exploration and development costs for producing mines and projects where a development decision has been made.

This caption also includes capitalized costs incurred for the development of previously producing mines in Australia. Mining operations on LMRA's White Foil property in Western Australia have been suspended since the

fourth quarter of 2003 and are currently in the process of being restarted up. With respect to the Frog's Leg mine, the open pit phase was completed in the fourth quarter of 2005. Work is currently under way to start the underground phase. Consequently, the assets related to those two mines have not been amortized since production has ceased.

In Sudan, some costs were incurred for the development of secondary deposits adjoining the main mining site of Hassai.

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AS AT DECEMBER 31	2007	2006
Australia		
White Foil	8,944	8,205
Frog's Leg	12,180	4,258
Sudan		
Hassai North	179	-
Um Ashar	149	-
	21,452	12,463

Amortization is included in the 'cost of sales' and amounts to \$6,519,000 and \$8,090,000 for the years ended December 31, 2007 and 2006, respectively. There were no impairment provisions on PP&E in 2007 or 2006.

15. INVESTMENTS AND OTHER ASSETS

AS AT DECEMBER 31	2007 FAIR VALUE	2006 CARRYING VALUE	2006 FAIR VALUE
Investments in Australian listed equity securities (a)	4,353	3,239	2,917
Investment in Asset-Backed Commercial Paper (b)	10,200	-	-
Deposits and prepaid expenses	70	126	126
	14,623	3,365	3,043

(a) Investments in Australian listed equity securities

These investments relate to Australian listed equity securities of mining companies for which no shares are held in excess of 9% of the company.

Fair value is ascertained by reference to the quoted bid price of the shares at period end. During the year, an impairment charge of AUD\$99,000 was recorded on one of the investments (none in 2006).

AS AT DECEMBER 31	2007	2006
Aggregate unrealized gains	1,468	113
Aggregate unrealized losses	-	(437)
Tax	(440)	96
	1,028	(226)

(b) Investments in Asset-Backed Commercial Paper

As at December 31, 2007, the Company held two notes for a \$12,000,000 principal amount of Canadian non-bank sponsored asset-backed commercial paper ("ABCP") issued by two issuers. These two notes which were due and payable on September 4, 2007 remain outstanding as a result of the inability of the issuers to complete a rollover on the due date because of the lack of liquidity for ABCP. At the dates at which the Company acquired the investments, the notes were rated R-1 (High) by DBRS, the highest credit rating for commercial paper.

DBRS has placed this ABCP "Under Review with Developing Implications" following the August 16, 2007 announcement that a group representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim standstill agreement to convert the ABCP into term floating-rate notes ("FRNs") maturing no earlier than the scheduled maturity dates of the underlying assets (the "Montreal Proposal").

On September 6, 2007, the Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper (the "Committee") consisting of a panel of major Montreal Proposal ABCP investors was formed. On October 16, 2007, the Chairman of the Committee agreed to the extension of the standstill agreement until December 14, 2007, at which time the Committee expected to have proposals to restructure all of the remaining conduits. On December 23, 2007, the Chairman of the Committee announced the framework of the proposed restructuring of 20 of the remaining 21 conduits (the "Framework Agreement") and further extended the standstill agreement until January 31, 2008. The Framework Agreement proposes to (i) replace the existing ABCP subject to the Montreal Proposal by new floating-rate notes with a maturity similar to that of the underlying assets; (ii) pool certain series of Montreal Proposal ABCP which are supported in whole or in part by underlying synthetic assets; (iii) mitigate the margin call obligations of the existing conduits and put in place credit facilities to fund such margin calls if they occur; and (iv) facilitate the establishment of market mechanisms for the new notes to facilitate access to liquidity for holders requiring it.

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With respect to the synthetic assets, the Framework Agreement provides that the pooling of the existing notes indicated above will be effected by the establishment of two limited partnerships which will issue variable-rate notes in exchange for the existing ABCP. The Company plans to join the second partnership ("MAV 2") and accordingly will not have to provide itself a portion of the planned credit facility. Furthermore, MAV 2 is expected to issue a combination of senior and subordinate notes in exchange for the existing ABCP. The proportion of senior and subordinated notes will depend among other things on the relative fair value of the ABCP. The Committee expects that the MAV 2 senior notes will obtain a AAA credit rating, while the subordinated notes will remain unrated.

The notes held by the Company are covered by the Framework Agreement, of which approximately 92% of the nominal amount constitutes "synthetic assets" and the remainder constitutes "ineligible assets".

On February 29, 2008, the Investors Committee announced a further extension of the standstill agreement. A meeting of noteholders is expected to occur in mid-April, with a closing toward the end of April 2008. On March 17, 2007, the Investors Committee announced that he has asked the Ontario Court of Justice for permission to call a noteholder meeting to approve the restructuring plan. Assuming the Court approves the request, noteholders will receive the complete information. The plan has been approved by the Committee and is supported by certain dealer bank providers and the ABCP sponsors.

The Montreal Proposal ABCP last traded on the active market on or about August 13, 2007 and there are currently no market quotations available for the Montreal Proposal ABCP. The ABCP held by the Company continues to be rated R-1 (High, Review with Developing Implications) by DBRS.

There is currently no certainty regarding the outcome of the proposed restructuring and therefore there is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Montreal Proposal ABCP. The Company estimates the fair values of the Montreal Proposal ABCP using a valuation technique which incorporates a probability-weighted approach applied to discounted future cash flows considering the best available data regarding market conditions for such investments as at December 31, 2007. In determining the fair values of the ABCP, the Company used a weighted average of three possible scenarios: scenario of the Montreal Proposal which appears the most probable, scenario of an orderly liquidation and scenario of a disorderly liquidation. The Montreal Proposal scenario assumes that the ABCP will be converted to long-term FRNs in accordance with the key elements of the Framework

Agreement. The Company assumes that the restructured pooled synthetic notes (\$11,037,313 principal amount) will be supported by collateralized debt obligations ("CDOs") with average maturity of 7 years having interest commensurate with AAA- rated notes. As indicated before, these pooled synthetic notes will be split into senior and subordinated notes, the significant majority expected to be ranked senior. Furthermore, in determining the fair value of the ABCP, the Company assumes that returns on the pooled synthetic notes will be reduced by the cost of the credit facility. The Company assumes that the part of one of the two notes which has partial exposure to US residential mortgage-backed securities will be restructured as ineligible notes (\$962,687 principal amount of which \$324,627 has exposure to US RMBS, representing 2.7% of total amount) with average maturity of 7 years bearing interest. The amount of \$324,627 with exposure to US RMBS was discounted by 50%. The Company has estimated the restructuring costs applicable to all restructured notes. Such restructuring costs are expected to further diminish returns on the Montreal Proposal ABCP. In the scenario of orderly liquidation, the pooled synthetic and the ineligible notes were valued on the basis of market indexes by category of assets. The scenario of disorderly liquidation is similar to the scenario of orderly liquidation but with a significant assumed decrease in the valuation. Based on these assumptions, the Company recorded a reduction in fair value of \$1,800,000. On the basis that the Company has not been able to collect all amounts due according to the original contractual terms, this decline in value has been recorded in earnings. As at December 31, 2007, the fair value of the Company's ABCP was estimated at \$10,200,000.

The ABCP held by the Company no longer qualifies as Cash equivalents and the Company has classified it as long-term investment.

Since the fair value of the ABCP is determined using a probability-weighted approach employing the foregoing assumptions and is based on the Company's assessment of market conditions as at December 31, 2007, the fair value reported may change materially in subsequent periods due to changes in interest rates and credit conditions, the availability of more detailed information on the underlying assets supporting the notes held by the company and the aggregate pool of assets that would support the MAV 2 notes, and the split between senior and subordinated MAV 2 notes. In addition, the fair value estimate is dependent upon the likelihood, nature and timing of future restructuring under the terms of the Montreal Proposal and the December 2007 Framework Agreement.

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

AS AT DECEMBER 31	2007	2006
Trade payables	2,981	8,035
Amounts due to the AREVA Group (Note 27)	1,261	293
Social security and other taxes	1,842	1,729
Accrued expenses and other payables	3,700	2,206
	9,784	12,263

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17. HUALILAN GOLD PROJECT

Patagonia is the beneficiary of a usufruct over properties located in Argentina referred to as the Hualilan Gold Project, which is comprised of two mining complexes, Hualilan I and Hualilan II.

Hualilan I

Patagonia is committed to a mortgage payable associated with the Hualilan I mining complex. The mortgage payable was initially to be discharged by a series of monthly payments, commencing January 2005, denominated in ounces of gold. Payments were to be made in accordance with the following schedule:

CALENDAR YEAR	MONTHLY PAYMENTS (OZ)	ANNUAL AMOUNT (OZ)
2005	108	1,296
2006	125	1,500
2007	150	1,800
2008	170	2,040
2009	190	2,280
		8,916

The Group has not commenced the scheduled payments and has received notice from the mortgage holder that it is not in compliance with the terms of the mortgage. On July 17, 2007, the mortgage holder filed a petition of bankruptcy against Patagonia before the commercial courts of the City of Buenos Aires. This petition of bankruptcy was registered by the court on December 12, 2007.

To date, no judicial decision was ordered and the bankruptcy has not been declared. Patagonia formally holds the right of usufruct over the Hualilan I mining complex and the mortgage remains a liability for Patagonia.

The Group has classified the entire amount of the mortgage payable as if it were a current liability, as at December 31, 2007.

As at December 31, 2007, the mortgage payable was measured using the gold spot price of USD\$836.5 per oz (2006: USD\$636.0 per oz) and an exchange rate of CAD\$0.99 to USD\$1 (2006: CAD\$1.17 to USD\$1).

Hualilan II

A judgment granted against, among other parties, Compañía Minera el Colorado S.A. ("Colorado"), the grantor of the Hualilan properties, is

outstanding. Collection proceedings were initiated in 2005, and a court-administered sale of Colorado's assets was reinstated by the Fifth Civil, Commercial and Mining Court in San Juan, Argentina. In 2007, the San Juan Court ordered the public sale of the mining complex Hualilan II and the Andacollo mine. Three consecutive public sales failed on February 28, March 16 and finally on March 30, 2007. On September 27, 2007, the court in San Juan recognized the rights of Mr. Giorgi and his associates on the property of Hualilan II. Consequently, the Court ordered the termination of the usufruct right granted by Colorado in favor of Patagonia over the Hualilan II mining complex. The usufruct right over the Hualilan I complex was not affected by the judicial order.

At this stage, this decision has no financial adverse effect upon the valuation of the Argentina properties. Following the reverse takeover on September 28, 2006, the Hualilan property had been valued at the value of the mortgage liability, which only concerned the Hualilan I mining complex, and the usufruct over Hualilan II was valued to nil, for purposes of the purchase price allocation.

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18. INCOME TAX

(a) Future income tax

Temporary differences giving rise to future income tax assets and liabilities are as follows:

AS AT DECEMBER 31	2007	2006
Future income tax assets		
Pension benefit obligations	265	136
Other provisions	540	838
Non-capital losses	8,957	7,280
Other	445	52
	10,207	8,306
Future income tax liabilities		
Property, plant and equipment	(1,811)	(1,451)
Pension benefit obligations	(6)	(52)
Other	(500)	(22)
	(2,317)	(1,525)
Net future income tax asset	7,890	6,781
The net future income tax asset is comprised of		
Current future income tax assets	605	31
Long-term future income tax assets	9,602	8,276
Long-term future income tax liabilities	(2,317)	(1,526)
	7,890	6,781

Future income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable income is more likely than not.

Future income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts of permanently reinvested unremitted earnings totalled \$377,000 at December 31, 2007. Withholding taxes payable and not recoverable as at December 31, 2007 are recorded as future income tax liabilities.

Canada

As at December 31, 2007, the Company had, for Canadian tax purposes, operating loss carry-forwards expiring as follows:

AMOUNT	EXPIRY DATE
\$53,944	2008
\$98,770	2009
\$1,556,217	2013
\$1,622,963	2014
\$7,594,916	2025
\$1,477,488	2026
\$4,151,132	2027

As at December 31, 2007, management considered that it is not "more likely than not" that these losses will be utilized and accordingly a full valuation allowance has been recognized against these tax losses.

Sudan

On September 6, 2006, AMC received an income tax notice dated August 14, 2006 from Sudanese tax authorities concerning the income taxes payable owed by AMC with respect to the fiscal year 2005. AMC Management disagreed with the assumptions used by Sudanese tax authorities to determine the amount of taxes payable. The Group's share of the difference between amounts claimed by Sudanese tax authorities and those believed to be due by management of AMC amounts to approximately \$4,400,000 (our share). Considering its industrial enterprise status, applicable laws, regulations and agreements as well as the discussions underway with the Sudanese Government, as at March 31, 2007, management did not believe that there was a significant risk of additional taxation to the amounts previously recorded as of December 31, 2005.

In May 2007, AMC was notified by the Minister of Finance that the Company will be subject to the income tax rate of 10% applicable to industrial companies. On the other hand, the Company will be exempted from 50% of income tax only for the year 2005, instead of a period of 5 years as initially proposed by Sudanese authorities. Initially, AMC accounts were prepared on the assumption of an income tax rate of 10% and a 50% exemption applying to 2005 as well as to 2006 and 2007.

Furthermore, on June 7, 2007, AMC received a revised income tax notice for the year 2005 while applying the expected 50% exemption but not the expected industrial tax rate of 10% (net taxation was 17.5% instead of 5% expected). On November 26, 2007, AMC received an income tax notice for the year 2006 applying an income tax rate of 30% instead of 10% expected. Management disagreed with the tax rates used by Sudanese tax authorities in these two notices.

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During the AMC Board which was held on January 2008, the Minister of Energy and Mining Activities and the State Finance Minister confirmed once again that the tax rate applying to AMC was 5% for the year 2005 and 10% thereafter.

By the end of January 2008, AMC was advised that a new regulation was passed on December 15, 2007 by which Oil and Mining sector would be subject to 35% income tax.

On February 26, 2008, the Minister of Finance and National Economy officially instructed the Tax Chamber to tax mining companies at 10% similar to the industrial sector.

In accordance with the instructions of the Minister of Finance, the 2007 Sudanese income tax was booked with a 10% tax rate and the 2006 income tax was adjusted to the 10% rate applying to the taxable amount notified on November 26, 2007; the total 2006 adjustment (our share) amounted to \$195,000 after deduction of the fiscal risk provision booked in 2006.

On March 19, 2008, AMC received a letter from the Sudanese Unified Tax Center that AMC was to pay at a 10% income tax applicable to the industrial sector the remaining of the 2007 tax payable in accordance with the instructions of the Minister of Finance. Management believes that there is no longer any significant risk regarding the income tax rates.

(b) Income tax expense

YEAR ENDED DECEMBER 31	2007	2006
Current tax	(2,570)	(3,341)
Future tax	2,268	1,265
Income tax expense	(302)	(2,076)

The tax on the Group's earnings (loss) before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings (loss) of the consolidated companies as follows:

YEAR ENDED DECEMBER 31	2007	2006
Earnings before income tax and non-controlling interests	(9,865)	9,707
Combined Canadian federal and provincial rate	32.02%	34.1%
Tax calculated at the Canadian rates	3,159	(3,310)
Tax rate differences of foreign operations	407	2,897
Limitation on future tax asset	(2,623)	(634)
Other permanent differences	(689)	(1,029)
Non-deductible expenses	(556)	-
Income tax expense	(302)	(2,076)

19. CAPITAL LEASE OBLIGATIONS

YEAR ENDED DECEMBER 31	2007	2006
Assets under capital lease obligations		
Mining equipment	1,232	-
Less: Current portion of capital lease obligations	(311)	-
	921	-

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Capital lease obligations relate to mining equipment for the JV project of Frog's Leg, Australia. The Group is jointly liable to a level of 51% of the total capital lease obligations of AUD\$2,785,000 (2006: none). The debt has a weighted-average effective interest rate of approximately 8.9% and a final maturity range from February to September 2011. During 2007, the Group recorded interest expenses on capital lease obligations of \$35,000 (2006: none).

As at December 31, 2007, obligations under capital lease for future minimum lease payments are as follows:

	CAPITAL LEASE OBLIGATION
2008	419
2009	419
2010	419
2011	174
Total minimum leases payments	1,431
Less amounts representing interest	(199)
	1,232

20. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	ASSET RETIREMENT OBLIGATIONS	LITIGATION	OTHER	TOTAL
As at January 1, 2006	1,102	459	-	1,561
Charged to Consolidated Statement of Operations:				
Additional provisions	89	-	1,248	1,337
Unused amounts reversed	-	(29)	-	(29)
Increase in provision – discount unwinding	59	-	-	59
Acquisition of remaining interest in White Foil mine	481	-	-	481
Paid during the year	-	(45)	-	(45)
Foreign exchange rate changes	167	35	83	285
As at December 31, 2006	1,898	420	1,331	3,649
Charged to Consolidated Statement of Operations:				
Additional provisions	253	-	411	664
Unused amounts reversed	-	-	-	-
Increase in provision – discount unwinding	-	-	-	-
Paid during the year	(28)	-	(737)	(765)
Foreign exchange rate changes	(116)	(22)	(72)	(210)
Change in consolidation basis of SMI (Note 9)	(261)	(217)	(453)	(931)
As at December 31, 2007	1,746	181	480	2,407

AS AT DECEMBER 31	2007	2006
Analysis of total provisions:		
Long-term	2,407	2,576
Current	-	1,073
	2,407	3,649

As at December 31, 2007, the total undiscounted amount of estimated cash flows necessary to settle the provision for asset retirement obligations is approximately \$1,839,000 (2006: \$2,104,000). The disbursements to settle these provisions are expected to be made between 2012 and 2013. The Group's share of SMI's obligations is discounted at an estimated

annual rate of 5% while the LMRA liabilities were adjusted for costs increase by 15% in 2007 (2006: nil). No provision has been recorded for AMC's operations in Sudan, as the Group does not have any obligation to perform site-restoration.

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21. PENSION AND OTHER POST-SERVICE BENEFIT OBLIGATIONS

The Group, in accordance with laws and practices prevailing in the countries that it operates in, is committed to pay retirement bonuses or one-time post-service benefits to their retiring or departing employees, based on their compensation and seniority. Defined benefit plans are

recognized in accordance with the accounting policy defined in Note 2.14. Each year, the Group determines its commitments at year-end. These plans are not funded. The amounts for pension and other post-service benefits recognized in the balance sheet are determined as follows:

AS AT DECEMBER 31	2007	2006
Accrued benefit obligation - beginning of year	2,580	1,768
Current service cost	367	257
Interest cost	186	150
Benefit paid	(1,042)	(131)
Past service cost	323	282
Actuarial (gain) loss	37	-
Foreign exchange rate changes	(320)	211
Accrued benefit obligation – end of year	2,131	2,537
Unrecognized actuarial loss	-	43
Change in consolidation basis of SMI (Note 9)	(306)	-
Liability in the balance sheet	1,825	2,580

AS AT DECEMBER 31	2007	2006
Long-term	1,589	2,580
Current	236	-
	1,825	2,580

The amounts recognized in the statement of operations are as follows:

YEAR ENDED DECEMBER 31	2007	2006
Current service cost	367	257
Interest cost	186	150
Net actuarial losses recognized during the year	37	-
Past service cost	323	286
	913	693

Actuarial assumptions:

These calculations include the following assumptions: probability of retaining employees in the Group, future salary increases and a retirement age between 55 and 63 years old depending on location and applicable laws.

The average life expectancy of a pension after retirement age is estimated at between 6.9 and 7.9 years. The weighted-average remaining service life of the employees is about 17.1 years.

	2007 IVORY COAST	2007 SUDAN	2006 IVORY COAST	2006 SUDAN
Accrued benefit obligation as of December 31:				
Discount rate	8.0%	9.0%	8.0%	9.0%
Future salary increases	5.0%	9.0%	5.0%	9.0%
Benefit costs for years ended December 31:				
Discount rate	8.0%	9.0%	8.0%	9.0%
Future salary increases	5.0%	9.0%	5.0%	9.0%

Assumptions regarding future mortality experience are set based on advice from published statistics and experience in each territory.

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22. INTEREST INCOME (EXPENSE)

YEAR ENDED DECEMBER 31	2007	2006
Interest expense:		
Related party borrowings	–	(279)
Other	(130)	(103)
	(130)	(382)
Interest income:		
Income from cash and cash equivalents	1,191	628
Other	–	148
	1,191	776
Net interest income/(expense)	1,061	394

23. SHARE CAPITAL

(Equity instruments are in actual quantities and not in thousands)

(a) Authorized

An unlimited number of common shares without par value.

(b) Warrants

	YEAR ENDED DECEMBER 31, 2007			YEAR ENDED DECEMBER 31, 2006		
	NUMBER	CARRYING VALUE \$	WEIGHTED AVERAGE EXERCISE PRICE \$/SHARE	NUMBER	CARRYING VALUE \$	WEIGHTED AVERAGE EXERCISE PRICE \$/SHARE
Beginning of period	8,266,583	276	\$2.00	7,000,000 ⁽¹⁾	–	\$2.00
Granted to the Agent in connection with the Private Placement (Note 7)	–	–	–	1,266,583	276	\$2.00
End of the period	8,266,583	276	\$2.00	8,266,583	276	\$2.00

[1] Those warrants represent the warrants issued to the AREVA Group upon the reverse takeover (Note 6)
 All warrants expire on September 28, 2008 and are currently exercisable.

(c) Stock options

Upon the reverse takeover, the Group assumed the Company's stock option plan for its directors, senior officers, employees or employees of one of its subsidiaries as well as for consultants. Options granted under the plan expire over a maximum period of ten years and are exercisable as determined by the Board of Directors of the Company at the time the options are granted. The exercise price of the options under the plan is also fixed on the grant date and shall not, on any account, be less than the market price of the common shares at the grant date, calculated as the volume weighted average trading price of the common shares on the principal stock exchange on which the common shares are trading for the five trading days immediately preceding the grant date.

The maximum number of shares that may be issued pursuant to options granted under the plan will be 10% of the issued and outstanding common shares of the Company, as calculated on the relevant grant date.

Options may be granted by the Board of Directors to any eligible person, subject to the following limitations: (1) the number of common shares in aggregate issuable to insiders, as defined in the relevant securities legislation, and including associates and affiliates of the insider, at any time cannot exceed 10% of the issued and outstanding common shares; (2) the number of common shares in aggregate issued to insiders within any one-year period cannot exceed 10% of the issued and outstanding common shares; and (3) the number of options that may be granted to an eligible person within any one-year period cannot exceed 5% of the issued and outstanding common shares.

In 2007, the Company granted a total of 280,000 stock options to officers, exercisable at an average price of \$0.86 per share. One half of the options vest in 2009 and the other half vest in 2010. All options expire in 2013. The fair value of \$0.45 per option is based on the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 4.16%, expected volatility of 50%, expected dividend of nil and expected life of 6 years.

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	YEAR ENDED DECEMBER 31, 2007		YEAR ENDED DECEMBER 31, 2006	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE \$/SHARE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE \$/SHARE
Beginning of period	2,421,000	1.25	2,541,000	1.25
Assumed upon closing of the RTO (Note 6)	—	—	(70,000)	1.18
Granted	280,000	0.86	(50,000)	1.30
Exercised	(310,000)	0.96	—	—
Forfeited	(1,375,000)	1.27	—	—
End of the period	1,016,000	1.20	2,421,000	1.25

As at December 31, 2007, the value of the options granted during the year were recorded as Stock based compensation expenses on the Statement of income based on a pro-rata of the vesting period. The Stock based compensation expenses recorded in 2007 were \$ 24,352 (2006: none).

As at December 31, 2007, options outstanding under the plan are as follows:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING			NUMBER EXERCISABLE	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE (\$)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (\$)
\$0.85 to \$0.86	280,000	5.5	\$0.86	—	—
\$1.00 to \$1.25	475,000	0.9	\$1.25	475,000	\$1.25
\$1.26 to \$1.50	261,000	2.0	\$1.46	261,000	\$1.46
	1,016,000	2.4	\$1.20	736,000	\$1.32

24. EARNINGS PER SHARE

Basic and diluted earnings (loss) per share have been calculated as follows:

YEAR ENDED DECEMBER 31	2007	2006
Basic weighted-average number of common shares outstanding	141,935,014	103,449,920
Dilutive effect of stock options	—	81,477
Dilutive effect of stock appreciation rights	—	479
Diluted weighted-average number of common shares outstanding	141,935,014	103,531,876

For the periods presented, the warrants outstanding have been considered anti-dilutive, as their exercise prices exceed the estimated fair value or the trading price of the common shares. Furthermore, for

the period ended December 31, 2007, all options outstanding were anti-dilutive, as the Company reported a net loss.

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25. INVESTMENTS IN JOINT VENTURES

The Group's gold mining operations in Sudan are carried out through its 40% joint venture interest in AMC while its operations in Côte d'Ivoire are carried out through its 45.9% joint venture interest in SMI since May 27,

2007 (see Note 9). In addition, the Group, through LMRA, carries out some exploration and mining operations in Australia through its interests in the following unincorporated joint ventures:

AS AT DECEMBER 31		2007	% 2006
Cutters Ridge JV	Exploration	51.00	51.00
Kintore East JV	Exploration	76.25	76.25
Polaris JV	Exploration	68.01	68.01
Mungari East JV (Frog's Leg)	Mining and Exploration	51.00	51.00
West Kalgoorlie JV	Exploration	51.00	51.00
Yuinmery	Exploration	72.47	63.62

The following amounts represent the Group's share of the assets and liabilities, revenues and expenses, and cash flows of the joint ventures included in the balance sheet, statement of operation and cash flows:

AS AT DECEMBER 31	2007	2006
Assets:		
Current assets	38,073	16,040
Long-term assets	39,721	9,948
Liabilities:		
Current liabilities	(3,334)	(2,518)
Long-term liabilities	(10,719)	(853)
YEAR ENDED DECEMBER 31	2007	2006
Revenue	46,065	14,182
Expenses	(42,029)	(14,600)
Net earnings	4,036	(418)
Cash flows from:		
Operating activities	3,185	2,356
Investing activities	(10,563)	(8,471)
Financing activities	(1,089)	(5,105)

26. COMMITMENTS AND CONTINGENCIES

In the normal conduct of operations, there are pending claims by and against the Group. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on advice and information provided by its legal counsel, final determination of these litigations will not materially affect the Group's consolidated financial position or results of operations

Operating lease commitments and tenement lease obligations

In Australia, LMRA is also engaged in capital commitments related to tenement lease obligations where LMRA is required to incur expenditures during the lease period in order to keep the leases current. While these amounts have been shown as obligations, it is possible to avoid such

obligations in exchange for the leases being surrendered. The period of these obligations does not exceed 21 years. The total amount contracted for by LMRA is \$9,981,000, of which \$1,323,000 (AUD\$1,548,000) represents LMRA's share of such obligations arising from properties held through joint ventures.

The Group is committed on the following types of lease obligations:

- Commercial leases on plant and mining equipments
- Commercial leases on office equipments
- Lease of office spaces

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As at December 31, 2007, the future aggregate minimum operating lease payments over the next five years under non-cancellable operating leases are as follow:

	OPERATING LEASES	TENEMENT OBLIGATION
2008	395	2,321
2009	304	2,319
2010	243	2,319
2011	228	2,319
2012	228	2,319
Thereafter	381	384
	1,779	11,981

The Group also leases various plant and machinery under cancellable operating lease agreements. The Group is required to give a three- to six-month notice for the termination of these agreements.

27. RELATED-PARTY TRANSACTIONS

The ultimate parent of the Group is AREVA Group, which indirectly owns approximately 63% of the Company's shares. In addition to the transactions disclosed elsewhere in these financial statements, the Group entered into the following transactions with the AREVA Group:

(i) Purchases of services

YEAR ENDED DECEMBER 31	2007	2006
Shared administrative costs and other purchases – AREVA Group	1,829	847
Shared administrative costs from related parties – board members	361	231

The Company incurred some administrative services costs and other purchases from its ultimate parent company AREVA. Services and other purchases, which are recorded at exchange amount, are usually negotiated with related parties on a cost-plus basis or on a lump sum basis.

which are recorded at exchange amount, are usually negotiated with related parties on a cost-plus basis. This agreement was terminated on June 30, 2007.

The Company incurred some shared administrative services for the former corporate office in Vancouver with companies controlled by or under the significant influence of former board members of the Company. Services,

(ii) Joint venture recoveries

The amounts in the statement of operations for joint venture recoveries represent the partners' share of accounting and administration services rendered to the joint ventures by LMRA. Those services are measured at cost.

(iii) Current balances with related parties

AS AT DECEMBER 31	2007	2006
Payables to related parties – AREVA (Note 16)	(1,261)	(293)
Receivables to related parties – AREVA	44	–
Receivables from related parties-board members	–	43

(iv) Interest expense on borrowings from related parties

The Group used to borrow from related parties. Interest expenses incurred on these loan agreements were as follows:

FOR THE YEAR ENDED DECEMBER 31	2007	2006
Borrowings from the AREVA Group (a)	–	189
Borrowings from SODEMI (b)	–	90

(a) Euribor-based borrowings with AREVA Group

Indirect wholly owned subsidiaries of the AREVA Group loaned funds to Cominor under a euro-denominated loan agreement bearing interest indexed on the 1-year Euribor rate. As described in Note 7 (b), this loan has been transferred to the Company upon the closing of the reverse takeover transaction.

(b) Borrowings from SODEMI

SMI had borrowings from SODEMI, a company wholly owned by the Ivory Coast government, which owned at the time the remaining 49% interest in SMI. SODEMI loaned funds to SMI under a euro-denominated loan agreement bearing interest of 10% per annum rate. This loan has been fully reimbursed during the year ended December 31, 2006.

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28. SEGMENT REPORTING

The Group's operations are concentrated on gold mining and exploration and are managed on a country by country basis. These segments are described below:

- **Ivory Coast** reflects the joint venture interest in the operations of SMI (see Note 25), which operates the Ity gold mine in western Ivory Coast and holds contiguous exploration interests;
- **Sudan** reflects the Group's joint venture interest in the operations of AMC, which operates the Hassaï mines in north-eastern Sudan and holds contiguous exploration interests;
- **Australia** reflects the operations of LMRA. LMRA's mining operations on its two principal properties in Western Australia, White Foil and Frog's Leg, have been suspended since the fourth quarter of 2003 and the fourth quarter of 2005, respectively. During 2007, the open pit of White Foil was dewatered. The start-up of the mining operations was delayed in order to review the mining plan. A feasibility study was launched and should be available in 2008. During the 3rd quarter of

2007, work has restarted to develop the underground phase of the Frog's Leg mine with a planned restart of mining operations in the 2nd quarter of 2008. LMRA also holds exploration interests in Western Australia and, to a lesser extent, in Queensland;

- **Argentina** reflects the exploration activities carried out by Minera Patagonia S.A. and Compania Minera Esperanza S.A., all of which were acquired upon the reverse takeover described in Note 6.

The Other activities reflect the Group's corporate risk management, treasury and support activities, unallocated assets located in France and, since the reverse takeover, in Canada, and inter-segment eliminations.

Revenue is allocated based on the country in which the gold is produced. Each of the Ivory Coast and Sudan segments has one major customer that accounts for the majority of its revenue. Assets are attributed to where they are located. Capital assets include property, plant and equipment, mineral properties and intangible assets.

	FOR THE YEAR ENDED DECEMBER 31, 2007					
	IVORY COAST	SUDAN	AUSTRALIA	ARGENTINA	OTHER	TOTAL
Revenue	20,183	25,870	–	–	2,403	48,456
Mine operating earnings (loss)	3,172	4,013	(6,503)	(1,039)	(7,845)	(8,202)
Interest income (expense)	(26)	9	178	–	900	1,061
Income tax expense	(1,392)	(440)	2,205	–	(675)	(302)
Net earnings (loss)	1,120	3,582	(4,226)	(1,039)	(10,243)	(10,806)
Depreciation and amortization	2,755	3,228	458	–	78	6,519
Capital expenditures	3,002	3,832	12,928	33	269	20,064

	AS AT DECEMBER 31, 2007					
	IVORY COAST	SUDAN	AUSTRALIA	ARGENTINA	OTHER	TOTAL
Capital assets	10,979	10,542	25,526	7,136	229	54,412
Total assets	19,049	42,021	47,101	7,136	16,272	131,579

	FOR THE YEAR ENDED DECEMBER 31, 2006					
	IVORY COAST	SUDAN	AUSTRALIA	ARGENTINA	OTHER	TOTAL
Revenue	29,203	28,754	–	–	2,230	60,186
Mine operating earnings (loss)	6,703	6,790	(2,819)	(208)	(607)	9,857
Interest income (expense)	(160)	36	(216)	–	734	394
Income tax expense	(1,997)	(439)	995	–	(637)	(2,076)
Net earnings (loss)	1,937	6,388	(1,932)	(208)	(1,164)	5,021
Depreciation and amortization	3,595	4,400	79	–	16	8,090
Capital expenditures	1,965	2,620	5,675	7,105	1	17,366

	AS AT DECEMBER 31, 2006					
	IVORY COAST	SUDAN	AUSTRALIA	ARGENTINA	OTHER	TOTAL
Capital assets	17,208	11,668	12,868	7,105	99	48,948
Total assets	36,827	45,083	26,911	7,165	43,847	159,833

MINERAL RESERVES AND RESOURCES ^{[1][2]}
SHARE OF LA MANCHA RESOURCES

DECEMBRE 31, 2006	TONNES (T)	GRADE (G/T)	OUNCES (OZ)
GOLD OPERATIONS			
Hassaï Mine (40%) ^[3]			
Proven Reserves	721,266	5.19	120,308
Probable Reserves	481,087	4.45	68,854
Subtotal	1,202,353	4.89	189,162
Measured Resource	721,266	5.19	120,308
Indicated Resources	1,294,264	4.67	194,486
Total Measured and Indicated	2,015,531	4.86	314,794
Inferred Resources	563,366	4.58	82,956
Ity Mine (45.9%) ^[4]			
Proven Reserves	989,145	5.15	163,642
Probable Reserves	102,357	5.78	19,037
Subtotal	1,091,502	5.21	182,679
Measured Resource	1,303,101	5.12	214,510
Indicated Resources	119,340	6.67	25,589
Total Measured and Indicated	1,422,441	5.25	240,099
Inferred Resources	204,714	3.78	24,851
GOLD PROJECTS			
Frog's Leg (51%) ^[5]			
Proven Reserves	579,449	5.34	99,483
Probable Reserves	1,284,521	5.27	217,642
Subtotal	1,863,970	5.29	317,019
Measured Resource	495,720	7.10	113,220
Indicated Resources	1,146,990	6.90	255,510
Total Measured and Indicated	1,642,710	7.00	368,730
Inferred Resources	579,360	5.70	106,590
White Foil (100%) ^[6]			
Measured Resource	3,680,000	2.32	274,490
Indicated Resources	1,981,000	1.97	125,470
Total Measured and Indicated	5,661,000	2.20	399,960
Inferred Resources	2,303,000	2.16	159,933
Fetekro (65%) ^[7]			
Inferred Resources	2,388,104	2.43	186,574
TOTAL GOLD			
Proven and Probable Reserves	4,157,826	5.15	688,860
Measured and Indicated Resources	10,741,682	3.84	1,323,584
Inferred Resources	6,038,544	2.89	560,904

[1] Reported mineral reserves have been calculated in accordance with definitions and guidelines adopted by the Canadian Institute of Mining, Metallurgy and Petroleum. Unlike proven and probable mineral reserves, mineral resources (of all categories) do not have demonstrated economic viability.

[2] In mining operations, measured and indicated resources are considered uneconomic at the price used for reserves calculations.

[3] Dated 31/12/2007

[4] Dated 1/12/2007

[5] Dated September 2007

[6] Dated 31/12/2007

[7] Dated 31/12/2006

MINERAL RESERVES AND RESOURCES

Mineral reserves and resources have been estimated by La Mancha's technical personnel for each property in accordance with definitions and guidelines adopted by the Canadian Institute of Mining, Metallurgy and Petroleum (CIM "Standards on Mineral Resources and Reserves"). There are numerous uncertainties inherent in estimating proven and probable mineral reserves, including many factors beyond the Company's control. Reserve estimation is a subjective process, and the accuracy

of any reserve estimate is a function of the quality of available data and engineering and of geological interpretation and judgment. Results from drilling, testing and production, as well as material changes in metal prices subsequent to the date of an estimate, may justify revision of such estimates.

La Mancha qualified persons⁽¹⁾ responsible for the mineral reserve and resource calculations for each mine or project are as follows:

	NAME	TITLE
GOLD OPERATIONS		
Hassaï	Eddie, Trevor Bosc, Remi	Senior Mine Geologist, La Mancha Resources Australia Independent Geologist
Ity	Camus, Yann	Consultant Geologist, Systèmes Géostat International Inc. (Geostat)
GOLD PROJECTS		
Frog's Leg	Guibal, Daniel MacSporran, Gary	Corporate Consultant, SRK Consulting Corporate Consultant, SRK Consulting
White Foil	Guibal, Daniel	Corporate Consultant, SRK Consulting
Fetekro	Eddie, Trevor	Senior Mine Geologist, La Mancha Resources Australia

(1) Qualified person: an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation, mineral project assessment, or any combination of these, has experience relevant to the subject matter of the mineral project and the technical reports, and is a member in good standing of a professional association.

MINERAL RESERVES AND MINERAL RESOURCES

METALLURGICAL RECOVERY AND CUT-OFF GRADE

In calculating mineral reserves, cut-off grades are established using long-term gold price and foreign exchange assumptions, average metallurgical recovery rates and estimated production costs over the life of the related operation. For an underground operation, a cut-off grade is calculated for each mining method, as production costs vary from

one method to another. For a surface operation, production costs are determined for each block included in the relevant operation.

The following table indicates the cut-off grades and average metallurgical recoveries at La Mancha's gold mining operations for the proven and probable mineral reserve.

MINE	AVERAGE METALLURGICAL RECOVERY (GOLD %)	CUT-OFF GRADES (G AU / T)	GOLD PRICE USED (\$ / OZ)
Hassaï Mine	63 to 89*	1.5	US\$650
Ity Mine	80	2.0	US\$650
Frog's Leg project	94.9	3.5	AUD845

* Varies depending on ore type