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QUARTERLY REPORT – FIRST QUARTER

11



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HIGHLIGHTS

(unaudited)

(All amounts are in CDN dollars unless otherwise noted)

**First Quarter ended March 31,
2011** **2010**

RESULTS (consolidated, in thousands of \$)

Revenues	43,022	27,840
Cash flow from operating activities	26,541	9,946
Net earnings (loss)	7,504	3,663

PER SHARE (\$)

Net earnings (loss)	0.053	0.026
Basic weighted average number of common shares outstanding (in thousands)	142,661	142,184

ATTRIBUTABLE GOLD PRODUCTION

Number of ounces produced	32,426	21,654
Cash costs (US\$ per ounce)	622	614

**March 31,
2011** **December 31,
2010**

FINANCIAL POSITION (in thousands of \$)

Cash and short-term investments	59,989	38,384
Total assets	188,684	177,566
Shareholders' equity	147,321	138,432
Total number of shares outstanding (in thousands)	142,661	142,661

GOLD PRODUCTION STATISTICS

**First Quarter ended March 31,
2011** **2010**

Australian Operations

Frog's Leg (51%)

Attributable production (ounces)	22,291	9,789
Tonnage milled (t)	95,387	55,664
Grade milled (g Au/t)	7.8	5.9
Recovery rate (%)	93%	93%
Cash costs (US\$ per ounce)	558	570

White Foil (100%)

Attributable production (ounces)	80	N/A
Tonnage milled (t)	1,531	N/A
Grade milled (g Au/t)	2.0	N/A
Recovery rate (%)	81%	N/A
Cash costs (US\$ per ounce)	1,157	N/A

African Operations

Hassai (40%)

Attributable production (ounces)	7,837	7,099
Tonnage milled (t) ¹	235,631	224,600
Grade milled (g Au/t)	3.6	3.6
Recovery rate (%)	72%	69%
Cash costs (US\$ per ounce)	799	734

ITY (45.9%)

Attributable production (ounces)	2,218	4,766
Tonnage milled (t) ¹	56,494	99,132
Grade milled (g Au/t)	3.2	4.7
Recovery rate (%)	83%	70%
Cash costs (US\$ per ounce)	617	527

¹ On a 100% basis

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE-MONTH FISCAL PERIOD ENDED MARCH 31, 2011

The following management discussion and analysis ("MD&A") should be read in conjunction with the Company's MD&A and annual audited consolidated financial statements dated December 31, 2010, which were prepared in accordance with Canadian GAAP, and the condensed interim consolidated financial statements for the three-month period ended March 31, 2011, which were prepared in accordance with International Financial Reporting Standards (IFRS). 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 May 18, 2011.

The condensed interim consolidated financial statements as at March 31, 2011, and for the three-month periods ended March 31, 2011 and 2010, have not been audited by the Company's external auditors. According to management, all adjustments accurately represent the results obtained in these periods. The adjustments made were of a normal recurring nature, except for the transition adjustments recognized on change-over to IFRS.

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. Except as may be required by Canadian securities laws, the Company does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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 and two in Australia, including White Foil, which entered into mining operation in March 2010, 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 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 consolidated financial statements of La Mancha Resources Inc. as at and for the three-month periods ended March 31, 2011 and 2010, prepared on the basis described above.

HIGHLIGHTS OF THE FIRST QUARTER

- Gold production up 50% to 32,426 oz at an average cash cost of US \$622 per oz
- Record cash flow from operating activities of \$26.5 million, up 167%
- Revenues up 55% to \$43.0 million
- Net earnings up 105% to \$7.5 million
- Cash and short-term investments of \$60.0 million

- Release of a positive feasibility study for the CIL plant upgrade at the Hassai mine

The table below highlights La Mancha's exceptional first quarter performance.

	Quarter ended March 31,		Change: 2011 vs 2010
	2011	2010	
Attributable production (in oz)	32,426	21,654	+50%
Operating income (\$'000)	10,903	5,902	+85%
Net earnings (\$'000)	7,504	3,663	+105%
Cash cost (US \$/oz)	622	614	+1%
Operating cash flow (\$'000)	26,541	9,946	+167%

La Mancha Resources Inc. (TSX: LMA, FSE: LMA, hereinafter "La Mancha" or the "Company") produced 32,426 ounces of gold at an average cash cost of US \$622 per ounce during the first quarter of 2011, compared to 21,654 ounces of gold at an average cash cost of US \$614 per ounce in the same quarter last year. The increase in production is due to strong performances at the Frog's Leg mine in Australia and the Hassai mine in Sudan, which together more than compensated for lower production at the Ity mine in Côte d'Ivoire.

This stronger gold production, combined with the increase in gold prices, drove La Mancha's first quarter revenues up to \$43.0 million, marking a 55% increase over the corresponding period of 2010.

For the first quarter of 2011, La Mancha's consolidated net earnings more than doubled to reach \$7.5 million. This compares to net earnings of \$3.7 million for the first quarter of 2010.

The Company generated a record \$26.5 million in cash flow from operating activities during the first quarter of 2011, compared to \$9.9 million during the corresponding quarter of 2010. The table below highlights the cash flow from operating activities and its resulting impact on the net cash increase for the period.

Amounts shown in \$'000	For the quarter of 2010 ended				For the quarter ended March 31, 2011
	March 31	June 30	Sept. 30	Dec. 31	
Cash flow from operating activities*	9,946	18,927	9,613	21,099	26,541
Less acquisitions of equipment	(3,275)	(3,427)	(2,865)	(1,443)	(1,188)
Less mine development / capitalized exploration costs	(3,272)	(3,997)	(3,104)	(5,077)	(3,974)
Less loan repayments	(1,693)	(13,932)	0	0	0
Other adjustments**	(476)	3,373	5,490	(6,240)	(3,169)
Net increase in cash	1,230	944	9,134	8,339	18,076

*Cash flow from operations are presented under IFRS, with the exception of the quarters ended June 30th, September 30th and December 31st, 2010, which are reported under Canadian GAAP. **Includes investment proceeds and acquisitions, and capital lease repayments

The Company had a strong cash and short-term investment position of \$60.0 million as of March 31, 2011, and was debt-free. This compares to cash and short-term investments of \$21.4 million and an outstanding long-term debt of \$14.3 million as of March 31, 2010. In addition to its cash and short-term investments, La Mancha's sources of funds available as of March 31, 2011, also included \$7.2 million of investments in Asset Backed Commercial Paper ("ABCP") and an AREVA debt facility available for its full amount of AU \$22.0 million.

AUSTRALIAN OPERATIONS

The **Frog's Leg** mine generated 22,291 ounces of gold net to La Mancha at an average cash cost of US \$558 per ounce (AU \$556 per ounce) in the first quarter of 2011 compared to 9,789 ounces at an average cash cost of US \$570 per ounce (AU \$631 per ounce) in the corresponding period of 2010. The 128% increase in gold production over the corresponding quarter of 2010 was mainly due to higher toll-milling capacity and higher gold grades.

Due to the aforementioned high gold grades and increased operating efficiency, the cash cost per ounce in Australian dollars for Frog's Leg decreased by 12% from the corresponding period of 2010; however, due to unfavourable foreign exchange rate variations, the cash cost in US dollars per ounce decreased by only 2%.

The available toll processing capacity at the nearby Greenfields plant was filled by higher grade ore from the Frog's Leg mine. As such, only 1,531 tonnes of **White Foil** ore were processed during the quarter, yielding 80 ounces at an average cash cost of US \$1,157 per ounce. Mining activities at White Foil started in March, 2010, while its first gold pour occurred on April 16, 2010.

Due to White Foil's stockpile of 108,998 tonnes of ore grading 1.94 g/t available at the beginning of the quarter, no mining was necessary during the quarter. Available processing capacity during the second quarter is expected to considerably reduce the White Foil ore stockpile. La Mancha expects to tender a mining contract later in the year for the second bench of the pit, which represents approximately 310,000 tonnes of ore at an average grade of around 2.0 g/t Au.

AFRICAN OPERATIONS

Hassaï mine production increased to 19,592 ounces of gold (7,837 ounces attributable to La Mancha) at an average cash cost of US \$799 per ounce during the first quarter of 2010, due to the continued optimization of the processing plant. This compares to 17,748 ounces of gold (7,099 ounces attributable to La Mancha) produced in the first quarter of 2009 at a cash cost of US \$734 per ounce.

On May 16, 2011, La Mancha announced a positive Definitive Feasibility Study ("DFS") for the proposed upgrade of its present Hassaï heap leach plant to Carbon-In-Leach ("CIL") technology.

The table below highlights the positive impact of upgrading the current plant to CIL technology.

Impact of upgrading the current plant to CIL technology as per DFS

	Current Operation	CIL Upgrade
Processing Plant		
Process type	Heap leaching	CIL
Capacity per year (Mtpa)	0.8 – 1.0	3.0
Design metallurgical recovery	Non-tailings: 70%, Tailings: <30%	Non-tailings: 90%, Tailings: 63%
Production		
Gold reserves (oz)	327,000	1,088,000
Yearly production (oz)*	68,434	161,647
Mine life (years)	Until 2014	2013-2018
Average cash cost (US \$/oz)**	731	571

*Current operation: Realized 2010 production shown; CIL: Excludes low production projected in last year of operation;

** Current operation: Realized 2010 cash cost shown, CIL: Cash cost excludes capitalized mining costs associated to acidic ore stockpiles

As shown in the table above, the CIL upgrade should provide two major advantages to the mine: A) the CIL plant should allow the processing of ore that cannot currently be economically processed with the existing plant, thereby extending the mine life until 2018, and B) the new plant's increased capacity (3.0 Mtpa vs. 0.8 Mtpa) should allow the mine's average gold production to increase by 136% to 161,647 ounces of gold per year. Commissioning of the CIL plant is planned for early 2013.

Despite only being operational between mid-January and February 24, 2011, due to the temporary shutdown caused by Côte d'Ivoire's political situation, the **Ity mine** produced a total of 4,830 ounces of gold (2,218 ounces attributable to La Mancha) at an average cash cost of US \$617 per ounce during the first quarter of 2011, which represents roughly half of the 10,380 ounces of gold (4,766 ounces attributable to La Mancha) produced in the corresponding quarter of 2010, at an average cash cost of US \$527 per ounce.

In light of the recently improved political situation in Côte d'Ivoire, operating activities at the Ity mine successfully resumed on May 9, 2011. Management expects the downtime experienced at the beginning of the year to be offset by Ity's upgraded processing facility and its resulting improved production capacity. As seen early this year, the upgraded processing facility has increased its run-rate to roughly 4,350 ounces of gold per month (2,000 ounces attributable to La Mancha). This year's production should therefore be in line with last's year production, as management is now expecting the mine to produce 32,700 to 37,000 ounces of gold in 2011 (15,000 to 17,000 ounces attributable to La Mancha).

VMS PROJECT

La Mancha's VMS project involves development of the volcanogenic massive sulphide (VMS) deposits underlying the mined-out pits of the Hassaï mine in Sudan. To date, the VMS resource delineated on the Hassaï property includes an Inferred resource of 51.4MT (20.6MT attributable to La Mancha) at 1.31 g/t Au and 1.23% Cu. This Inferred resource has been delineated in the VMS lenses found under the Hassaï South and Hadal Awatib pits. The Hassaï property is a mining complex consisting of 18 mined pits, of which six have visually-identified VMS potential. Following the publication of a positive PEA on September 7, 2010, a 12-month, 100,000-metre drilling program was launched with the intent of upgrading the Inferred resource to the Measured and Indicated category, increasing the current resource at the first two targets, and testing the potential of the VMS structure identified at the third target. As of April 30, 2011, the campaign remained on schedule, with a total of 41,715 metres drilled. A total of seven drill rigs are currently in operation, with three rigs each at Hassaï and Hadal Awatib carrying out development and infill drilling and the seventh having started target delineation drilling at Hadayamet.

SELECTED YEAR-TO-DATE INFORMATION (unaudited)

The following financial data is derived from the Company's unaudited financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for the year-to-date periods specified.

Fiscal period	Three months ended March 31, 2011	Three months ended March 31, 2010
	\$'000	\$'000
Net sales	43,022	27,840
Net income		
In total	7,504	3,663
Per share - basic and fully diluted ¹	0.053	0.026
	As at March 31, 2010 \$'000	As at Dec 31, 2010 \$'000 (audited)
Total assets	188,684	177,566
Total non-current liabilities	12,624	13,446
Cash dividends declared	none	none

Note 1 – Per share amounts are in dollars, not thousands of dollars.

RESULTS OF OPERATION

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

		Three months ended	
		March 31, 2011	March 31, 2010
Hassaï	Tonnage milled ('000 tonnes) ¹	236	225
	Grade milled (g Au/t)	3.6	3.6
	Attributable gold production (oz)	7,837	7,099
	Cash costs (US\$ per ounce) ³	799	734
Ity	Tonnage milled ('000 tonnes) ¹	56	99
	Grade milled (g Au/t)	3.2	4.7
	Attributable gold production (oz)	2,218	4,766
	Cash costs (US\$ per ounce)	617	527
Frog's Leg	Tonnage milled ('000 tonnes) ²	95	56
	Grade milled (g Au/t)	7.8	5.9
	Attributable gold production (oz)	22,291	9,789
	Cash costs (US\$ per ounce)	558	570
White Foil	Tonnage milled ('000 tonnes) ⁴	1.5	-
	Grade milled (g Au/t)	2.0	-
	Attributable gold production (oz)	80	-
	Cash costs (US\$ per ounce)	1,157	-
Total	Attributable gold production (oz)	32,426	21,654
	Cash costs (US\$ per ounce)	622	614

- 1: figure corresponds to the 100% of tonnage milled
- 2: figure corresponds to La Mancha's share (51%)
- 3: The cash cost per ounce does not include depreciation of the stripping costs capitalized at the Hassaï mine in accordance with the Company's cash cost calculation policy.
- 4: figure corresponds to La Mancha's share (100%)

Mining activities at White Foil started in March 2010, and its first gold pour occurred on April 16, 2010.

Recent political events forced the suspension of activities at the Ity mine from December 17, 2010, until mid-January 2011 and from February 24 until May 9, 2011. Consequently, no production was recorded during the month of March 2011.

Revenues

The following table sets out sales by entity:

Quantities (oz)	Three months ended	
	March 31, 2011	March 31, 2010
Hassaï (40%)	7,333	7,341
Ity (45.9%)	2,565	4,936
Frog's Leg (51%)	20,939	11,525
White Foil	80	-
TOTAL SALES (oz)	30,917	23,801
Total revenues (\$'000)	43,022	27,840

Revenues for the first quarter of 2011 were \$43.0 million, up 54.5% from \$27.8 million for the same period last year. This variance resulted from two factors: 1) an increase in volume (impact of \$8.2 million in revenues compared to the same period last year) due to higher production at the Frog's Leg mine, and 2) a strong rise in the gold price denominated in €/oz and AU\$/oz due to an increase in the USD gold price and a favourable foreign exchange rate effect for the AUD against the USD (impact of \$6.9 million) for the period from March 2010 to March 2011.

During the first quarter of 2011, 2,565 ounces of gold from the Ity mine (La Mancha's share) were sold at an average price of US \$1,330 (€996) per ounce, compared to 4,936 ounces of gold sold at an average price of US \$1,108 (€802) in the same period last year. The volume sold was 48% lower than in the first quarter of 2010 due to the interruption of mine activities from February 24 to May 9, 2011.

During the first quarter of 2011, a total of 7,333 ounces of gold from the Hassaï mine (La Mancha's share) were sold at an average price of US \$1,395 (€1,015) per ounce, compared with 7,341 ounces of gold sold at an average price of US \$1,118 (€808) per ounce in the same period of 2010. The volume of ore produced was 10% higher than last year, while volume sold was stable due to higher volume of dorés in inventory (2,540 oz) as of March 31, 2011, compared to March 31, 2010 (1,350 oz).

During the first quarter of 2011, 20,939 ounces of gold from the Frog's Leg mine (La Mancha's share) were sold at an average price of US \$1,389 (AU \$1,383) per ounce, compared with 11,525 ounces of gold sold at an average price of US \$1,121 (€1,223) per ounce in the same period of 2010. The increase in volume sold resulted from an increase in toll milling availability during the quarter compared to last year, as well as a significant increase in milling grade (7.8 g/t in Q1-2011 vs 5.9 g/t in Q1-2010).

Only 1,531 tonnes of White Foil ore were processed during the quarter, leading to the production and the sale of 80 ounces at an average price of US \$1,365 (Au \$1,372) per ounce.

As of March 31, 2011, the Company had extended its short-term hedging program into the full year of 2011. This zero-cost hedging program is designed to secure significant cash flow from approximately 25% of the Company's 2011 gold production.

It is important to note that, while secured by a strong minimum selling price, the portion of production covered by the program allows La Mancha to fully benefit from any future rise in gold prices, up to the following AUD and € gold prices per ounce for production from the Australian and African mines, respectively:

	Q2-2011			Q3-2011			Q4-2011		
	Ounces hedged	Strike price Floor (Put)	Strike price Ceiling (Call)	Ounces hedged	Strike price Floor (Put)	Strike price Ceiling (Call)	Ounces hedged	Strike price Floor (Put)	Strike price Ceiling (Call)
Australian production	4,380	AU\$1,250 /oz	AU\$1,725 /oz	4,454	AU\$1,251 /oz	AU\$1,735 /oz	4,803	AU\$1,223 /oz	AU\$1,733 /oz
African production	3,120	€795/oz	€1,173/oz	3,189	€852/oz	€1,260/oz	3,396	€846/oz	€1,281/oz
Total hedged	7,500			7,643			8,199		

In addition to this table, the remaining options related to the first quarter of 2011 hedging program represented 1,249 **oz as** of March 31, 2011 and expired in the beginning of April, 2011.

Two options were exercised during the three-month period ended March 31, 2011, and the Company recorded a loss of \$137,000 (2010: nil) in other operating expenses in the interim statement of earnings.

Average realized gold prices were as follow:

Gold price per ounce	Three months ended March 31, 2011	Three months ended March 31, 2010
Average market gold price for the period	US \$1,384	US \$1,109
	€1,008	€808
	AU \$1,366	AU \$1,237

Average gold price realized by La Mancha for the period	US \$1,384	US \$1,117
	€1,011	€806
	AU \$1,384	AU \$1,223

Cost of Sales

The cost of sales for the first quarter of 2011 was \$27.4 million, up 57% from \$17.4 million for the same period in 2010, while revenues increased by 54.5%. Gross margin was 36.3% of revenues compared to 37.6% the previous year. This reflects the increase in the average cost of sales per ounce mainly due to the increase in unit non-cash cost including higher depreciation charges at the Frog's Leg mine.

The average unit cash cost remained globally almost stable at US \$622 for the first quarter of 2011, up 1.3% from US \$614 for the same period in 2010, due to improved cash costs per ounce at the Frog's Leg mine. The changes in unit cash cost over the corresponding period of 2010 arose primarily from the following factors:

- at the Frog's Leg mine, the cash cost per ounce in Australian dollars decreased by 12% from the corresponding period of 2010, mainly due to higher processed gold grades;
- this decrease was partially offset by unfavourable fluctuations in currency exchange rates due to a 17% appreciation in the Australian dollar against the US dollar;
- the increase in processed quartz ore volume over the period led to higher cash costs at the Hassai mine compared to the first quarter of 2010;
- at the Ity mine, the lower production contributed to the increase in the cash cost per ounce compared to last year.

Exploration and Evaluation Expenses

During the first quarter of 2011, the Company incurred total exploration and evaluation expenses of \$1.5 million compared to \$1.4 million in 2010. These expenses were mainly related to:

- the completion of a new drilling campaign at the La Ortigueta project in Argentina;
- ongoing exploration work in Australia.
- in Cote d'Ivoire, some expenses corresponding to ground surveying on the prospects; the scheduled drilling campaign had not yet started due to the political instability.
- exploration costs at the VMS project in Sudan were capitalized as of March 31, 2011, in accordance with Company policy and are consequently not included in this aggregate.

General and Administrative Expenses

General and administrative expenses for the first three months were \$2.7 million in 2011 compared to \$2.9 million the previous year.

Other Operating Income / Expense

During the first quarter of 2011, other operating expenses amounted to \$0.62 million compared to \$0.28 million in 2010. This amount includes: operating costs of \$0.36 million related to maintenance

and ongoing dewatering costs at the White Foil mine in Australia before the start of the next mining operation; and a loss of \$0.18 million on financial derivative instruments, including the change in the time value of the gold collar contracts and the loss on the options exercised during the first quarter.

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 \$0.15 million during the first quarter of 2011, compared to \$0.07 million the previous year. This amount is directly linked to joint venture expenditures. Joint venture management fee recoveries for the Frog's Leg joint venture were reviewed with our partner, and the related fees, based on the recovery of Australian corporate office administrative costs, were significantly higher than in 2010.

Finance Income / Expense

The Company recorded a net finance income of \$0.21 million for the first quarter of 2011 compared to a net finance expense of \$0.13 million the previous year. This item consists of a \$103,000 interest expense mainly related to the Australian leases, net of \$313,000 in finance income on cash deposits.

Gain (Loss) on Investments

As at March 31, 2011, the Company held a total of \$11.0 million as face value in long-term notes issued by Master Asset Vehicle II. As of March 31, 2011, the Group recorded a \$60,000 increase in fair value (2010: \$330,000) due to lower discount rates. As at March 31, 2011, the fair value of the Group's Asset-Backed Term-Notes was estimated at \$7.21 million.

This estimate could change materially in subsequent periods.

On March 30, 2010, the Company sold 17,031 shares of its investment in Avoca Resources Inc. for a consideration of \$32,000 (AU \$34,000), realizing a gain on disposal of \$6,000 recorded in gain on investments.

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 25 to the Company's annual audited consolidated Financial Statements.

Note 7 to the Financial Statements includes uncertainty with respect to the long-term notes held by the Company.

As at March 31, 2011, the Company continues to hold the following notes issued by Master Asset Vehicle II ("MAV 2"): \$2.918 million of Class A-1 Notes, \$6.521 million of Class A-2 Notes, \$1.184 million of Class B Notes, \$0.329 million of Class C Notes (collectively the "Long-Term Notes"). The Class A-1 Notes, Class A-2 Notes and Class B Notes accrue interest at the Bankers' Acceptances ("BA") rate less 0.50%. The Class C Notes accrue interest at the BA rate plus 20%.

The Class A-1 and A-2 Notes have been originally rated A by DBRS. The Class B and C Notes have not been rated, nor have the Class IA Notes received by the Company. On August 11, 2009, the rating agency DBRS downgraded the credit rating of the Class A-2 Notes from A to BBB (low) and placed them Under Review with Negative Implications. On February 9, 2010, DBRS confirmed the BBB (low) rating and removed the Under Review with Negative Implications status citing the passage of time and the recent stability in the credit environment. On September 21, 2010, DBRS upgraded the Class A-1 Notes to A (high) and confirmed the BBB (low) rating of the Class A-2 Notes.

The Long-Term Notes have been designated as held-for-trading. Although there have been some isolated transactions subsequent to the completion of the Plan restructuring on January 21, 2009, there were no active market quotations available for these Long-Term Notes as of March 31, 2011. The Class A-1, A-2, B and C Notes legally mature in 2056. However, the expected maturity date is in 2016.

As at March 31, 2011, there remained a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Long-Term Notes. The Company estimates the fair values of the Long-Term Notes 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 March 31, 2011. The discount rates consider factors that include the BA rate, credit spread applicable to the credit rating, and premiums for lack of liquidity.

Due to their characteristics and the market conditions, the Group estimates that the fair value of the Class C Notes is nil as at March 31, 2011. Due to credit events, the supporting assets of the IA Tracking Note Class 3 were transferred to Deutsche Bank by the fund manager. Following the liquidation of the fund, a final payment to noteholders, representing cumulated interest, was issued on February 4, 2011. The carrying value of IA Tracking note Class 3 recorded as at December 31, 2010 was nil. For the three-month period ending March 31, 2011, no impact was recorded in the condensed interim statement of earnings following this liquidation.

Based on the discounted cash flow model as at March 31, 2011, the fair value of the Company's Notes was estimated at \$7.209 million (2010: \$7.149 million). The change in value recorded during the period ended March 31, 2011, was due to a fair value adjustment recovery of \$60,000 (2010: \$330,000) due to lower discount rates. In 2010, the Group also received principal repayments of \$2 during the year.

Since the fair value of the Long-Term Notes is determined using a probability-weighted approach employing the foregoing assumptions and is based on the Group's assessment of market conditions as at March 31, 2011, and despite the fact that the restructuring took place on January 21, 2009, the fair value reported may change materially in subsequent periods.

A 1% increase in the discount rate will decrease the fair value by approximately \$345,000 (2010: \$346,000).

Note 12 to the Financial Statements describes a lawsuit related to the bankruptcy of the Compania Minera Patagonia S.A. filed by the mortgage holder. It also describes a lawsuit filed before the commercial court of Buenos Aires against the Company by a former partner in the Hualilan II project, the Compania Minera El Colorado.

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

Fiscal quarter ended ¹	Net sales (\$'000)	Net income/(loss) (\$'000)	Net income/(loss) per share ²	Net income per share, fully diluted
March 31, 2011	43,022	7,504	0.053	0.053
December 31, 2010	49,992	7,107	0.049	0.049
September 30, 2010	32,320	4,922	0.035	0.034
June 30, 2010	54,541	8,046	0.057	0.056
March 31, 2010	27,840	3,663	0.026	0.026
December 31, 2009	24,237	(1,243)	(0.009)	(0.009)
September 30, 2009	28,162	3,045	0.021	0.021
June 30, 2009	28,365	6,100	0.043	0.043

Note 1 – Figures are presented under IFRS only for the first quarter of 2011 and the first quarter of 2010. Otherwise, they are reported under Canadian GAAP.

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

CASH FLOWS

Operating activities generated a strong cash flow of \$26.5 million during the first quarter of 2011, up from \$9.9 million in the corresponding period in 2010. This was due to the increase in revenues resulting from higher production at the Frog's Leg underground mine and the strong increase in gold prices throughout the period. Working capital demonstrated a positive year-over-year position due to favourable changes in inventories and accounts receivables. The decrease in inventories was mainly due to the processing of the ore stockpile at the Frog's Leg mine and the quartz ore stockpile at the Hassai mine.

Investing activities used \$7.9 million in cash flow in the first quarter of 2011 compared to \$6.5 million in the same period of 2010. These investments are mainly related to ongoing development of the Frog's Leg underground mine in Australia (\$3.2 million versus \$3.9 million for the same period in 2010), deferred stripping costs, exploration costs related to the VMS project and sustaining capital expenditures at the Hassai mine (\$2.0 million vs. \$0.7 million in 2010). Furthermore, this aggregate includes an increase of \$2.7 million in short-term investments, representing cash operational surpluses at the Sudanese entity.

Financing activities used cash flow of \$0.6 million during the first quarter of 2011, having used \$2.2 million in the same period of 2010. The Australian entity repaid \$0.6 million in capital lease obligations over the quarter compared to \$0.5 million in 2010. In 2010, an amount of \$1.7 million was repaid on the medium-term line of credit from the majority shareholder; this loan has been fully repaid since 2010.

LIQUIDITY

As at March 31, 2011, the Company's balance sheet showed current assets of \$95.3 million, up \$12.0 million from year-end. This increase is mainly explained by a strong increase of \$21.6 million in cash and cash equivalents and short-term investments, partially offset by the \$4.3 million decrease in inventories and the \$5.0 million decrease in receivables. Working capital amounted to \$66.6 million, with current assets exceeding total liabilities by \$53.9 million after deducting non-current liabilities of \$12.6 million.

The Restructuring Plan related to the ABCP issue was implemented in January 2009. The Company received new Notes once again available for trading. The Company considers that it has access to sufficient funds from its cash and cash equivalent balances, operating cash flows and borrowings to execute its operating and development plan in the normal course of business. Should the Company decide to move forward with the VMS project and should it decide to use that opportunity to increase its ownership status in the project, it could require additional funding from external sources.

CAPITAL RESOURCES

A medium-term credit line agreement with the Company's majority shareholder provides for a line of credit of up to a maximum of AU \$22 million to finance the Australian projects. The credit line bears interest based on the LIBOR three- or six-month index plus 2.75% per year, depending on the maturity of each withdrawal. During 2010, the ramp-up of the Frog's Leg mine allowed all of the withdrawals to be repaid, corresponding to an amount of \$16.1 million. This credit line remains in

force until December 31, 2011. The Company remained debt free as of March 31, 2011.

Total lease liabilities for the Frog's Leg mine equipment in Australia stood at \$3.0 million as at March 31, 2011.

STATUS AND OUTLOOK OF MINING OPERATIONS

Due to the improved political situation in Côte d'Ivoire, operating activities at Ity mine successfully resumed on May 9, 2011, while the exploration activities in the country are expected to gradually recommence in the coming months.

The precautionary measures taken at Ity to safeguard the plant and the mining assets proved effective as the equipment remained mainly intact and fully operational. As such, production at Ity is expected to return to its forecasted level by the end of May. At the time of reporting, it is management opinion that no material provision needs to be taken as a result of this temporarily interruption. Additional surveys are being conducted to fully assess the status of damages that may have occurred during the interruption period.

Despite the recent production interruptions at the Ity mine, total production is expected to be in the range of 115,000 to 135,000 attributable ounces at an estimated average cash cost of US \$671/oz, as published in the Company's 2010 annual MD&A.

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 are 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 used internally and disclosed externally is reliable and reported in a timely manner in accordance with Generally Accepted Accounting Principles.

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

CHANGES IN ACCOUNTING POLICY INCLUDING INITIAL ADOPTION

As described in the last annual MD&A, the Company has been subject to new accounting standards since January 1, 2011, namely International Financial Reporting Standards ("IFRS"). The effect of the Group's transition to IFRS is described in Note 2 and summarized in Note 5 to the Financial Statements.

The policies applied in the condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 18, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011, could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

OTHER REQUIRED DISCLOSURE

Outstanding Share Data

The Company had the following issued and outstanding securities as at March 31, 2011, and May 18, 2011:

	Number of shares	
Common shares		
March 31, 2011	142,660,850	
May 18, 2011	142,660,850	
	Number of options	Number of common shares if all options are exercised
Stock options		
March 31, 2011	625,000	
May 18, 2011	625,000	625,000

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
May 18, 2011



La Mancha Resources Inc.

Condensed Interim Consolidated Financial Statements
March 31, 2011 and 2010
and for the Three-Month Periods Ended
March 31, 2011 and 2010

(unaudited)

The condensed interim consolidated financial statements which are included in this report
have not been subject to a review by the Company's external auditors.



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La Mancha Resources Inc.

Condensed Interim Consolidated Statement of Financial Position

Amounts in thousands of Canadian dollars unless otherwise stated

(unaudited)

	Note	As at March 31 2011	As at December 31 2010	As at January 1 2010
ASSETS				
Current assets				
Cash and cash equivalents		51,557	32,899	13,087
Short-term investments		8,432	5,485	8,448
Trade and other receivables		9,107	14,181	11,096
Income taxes recoverable		–	–	323
Inventories	6	25,046	29,359	35,741
Other current assets		921	803	1,554
Derivative financial instruments	10	241	611	1,211
Total current assets		95,304	83,338	71,460
Non-current assets				
Property, plant and equipment		76,739	78,633	74,830
Intangible assets		4,941	3,686	2,676
Restricted cash		2,017	2,046	1,903
Deferred income tax asset		1,917	2,122	7,411
Derivative financial instruments	10	–	–	334
Investments and other assets	7	7,766	7,741	9,090
Total non-current assets		93,380	94,228	96,244
Total assets		188,684	177,566	167,704

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

Signed on behalf of the Board

"Dominique Delorme"

"Johanne Duchesne"

La Mancha Resources Inc.

Condensed Interim Consolidated Statement of Financial Position (continued)

Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)

		As at March 31	As at December 31	As at January 1
	Note	2011	2010	2010
LIABILITIES				
Current liabilities				
Bank indebtedness		48	–	–
Accounts payable and accrued liabilities		16,974	17,553	16,356
Income taxes payable		8,528	4,162	4,065
Current portion of finance lease obligations		1,817	2,244	2,092
Derivative financial instruments	10	177	511	1,162
Provisions		385	302	3,094
Pension and other post-service benefit obligations		810	916	735
Total current liabilities		28,739	25,688	27,504
Non-current liabilities				
Deferred income tax liability		2,681	3,363	96
Long term debt		–	–	16,112
Finance lease obligations		1,243	1,534	2,273
Derivative financial instruments	10	–	–	383
Provisions		6,700	6,673	3,755
Pension and other post-service benefit obligations		2,000	1,876	1,749
Total non-current liabilities		12,624	13,446	24,368
Total Liabilities		41,363	39,134	51,872
SHAREHOLDERS' EQUITY				
Common stock		42,026	42,026	41,541
Stock Options	9	134	184	156
Contributed surplus		44,222	44,160	44,139
Accumulated other comprehensive income		(124)	(1,497)	175
Retained earnings		61,063	53,559	29,821
Total shareholders' equity		147,321	138,432	115,832
Total liabilities and shareholders' equity		188,684	177,566	167,704

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

La Mancha Resources Inc.

Condensed Interim Consolidated Statement of Earnings

For the Three-Month Periods Ended March 31, 2011 and 2010

Amounts in thousands of Canadian dollars except per share amounts
(unaudited)

	Three-month period Ended March 31	
	2011	2010
Revenue	43,022	27,840
Cost of sales	(27,402)	(17,362)
Gross margin	15,620	10,478
Operating expenses		
Exploration and evaluation expenses	(1,526)	(1,440)
General and administrative expenses	(2,715)	(2,928)
Other operating expenses	(622)	(279)
Joint venture management fee recoveries	146	71
Total operating expenses	(4,717)	(4,576)
Mine operating earnings	10,903	5,902
Other income (expenses)		
Finance income	313	189
Finance costs	(103)	(315)
Gain (loss) on investments (note 7)	60	6
Foreign exchange gain (loss)	31	4
Other expenses	(50)	(41)
	251	(157)
Earnings before income tax expense	11,154	5,745
Income tax expense	(3,650)	(2,082)
Net earnings for the period	7,504	3,663
Earning per share (note 8)		
Basic	0.053	0.026
Diluted	0.053	0.026

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

Condensed Interim Consolidated Statement of Comprehensive Income

For the Three-Month Periods Ended March 31, 2011 and 2010

Amounts in thousands of Canadian dollars unless otherwise stated

(unaudited)

	Three-month period ended March 31	
	2011	2010
Net earnings for the period	7,504	3,663
Other comprehensive income		
• Change in cumulative translation adjustments	1,394	(5,546)
• Change in unrealized gains and losses on available-for-sale investments, net of income taxes of \$9 (2010: \$(81))	(21)	190
• Amount reclassified to consolidated statement of earnings net of income taxes of \$nil (2010: \$1).	–	(2)
Other comprehensive income (loss) for the period	1,373	(5,358)
Comprehensive income for the period	8,877	1,695

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

La Mancha Resources Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Amounts in thousands Canadian dollars unless otherwise stated
(unaudited)

	Common Shares (number of)	Common Shares	Options	Contri- buted Surplus	Retained Earnings	Cumulated translation adjustment	Accumulated other comprehensive income Assets available for sale	Total
Balance on January 1, 2010	142,184,350	41,541	156	44,139	29,821	–	175	115,832
Net earnings for the three month period ended March 31, 2010					3,663			3,663
Other comprehensive income (loss)						(5,546)	188	(5,358)
Stock-based compensation			34					34
Balance on March 31, 2010	142,184,350	41,541	190	44,139	33,484	(5,546)	363	114,171
Balance on January 1, 2011	142,660,850	42,026	184	44,160	53,559	(1,603)	106	138,432
Net earnings for the three month period ended March 31, 2011					7,504			7,504
Other comprehensive income						1,394	(21)	1,373
Forfeiture of options			(62)	62				–
Stock-based compensation			12					12
Balance on March 31, 2011	142,660,850	42,026	134	44,222	61,063	(209)	85	147,321

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

La Mancha Resources Inc.

Condensed Interim Consolidated Statement of Cash Flows

For the Three-Month Periods Ended March 31, 2011 and 2010

Amounts in thousands of Canadian dollars unless otherwise stated

(unaudited)

	Three-month period ended March 31	
	2011	2010
Cash flows from operating activities		
Net earnings for the period	7,504	3,663
Adjusted for non cash items		
Depreciation and amortization	6,009	3,920
Gain on disposal of properties	27	4
Derivative Financial Instruments (note 11)	23	(13)
Net movements in provisions	94	113
Foreign exchange loss (gain)	(31)	(4)
Gain on investments (note 7)	(60)	(6)
Stock based compensation expense	12	34
Finance costs	103	315
Finance income	(313)	(189)
Income tax expense	3,650	2,082
Changes in working capital:		
Inventories	4,834	(925)
Accounts receivable	5,264	(223)
Prepaid expenses, deposits and other assets	(106)	(56)
Accounts payable and accrued liabilities	(841)	2,869
Cash generated from operations	26,169	11,584
Interest paid	(103)	(291)
Interest received	357	-
Income tax received (paid)	118	(1,347)
Net cash generated from operating activities	26,541	9,946
Cash flows from investing activities		
Acquisition of property, plant and equipment	(1,322)	(3,275)
Exploration and evaluation costs capitalized	(1,212)	-
Mine development costs capitalized	(2,762)	(3,272)
Proceeds from sale of equipment	135	-
Short-term investments	(2,696)	-
Proceeds on disposal of investments	-	32
Net cash used in investing activities	(7,857)	(6,515)
Cash flows from financing activities		
Repayment of borrowings	-	(1,693)
Repayment of finance lease obligations	(655)	(535)
Net change in bank indebtedness	47	27
Net cash used in financing activities	(608)	(2,201)
Net increase in cash and cash equivalents	18,076	1,230
Cash and cash equivalents at beginning of the period	32,899	13,087
Effect of exchange rates change on cash and cash equivalents	582	(669)
Cash and cash equivalents at end of the period	51,557	13,648

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

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2011 and 2010

*Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)*

1. NATURE OF ACTIVITIES

La Mancha Resources Inc. (the "Company") was incorporated on October 10, 1996 under the Companies Act of the Province of British Columbia in Canada and is listed on the Toronto Stock Exchange. The address of the Company's headquarters and registered office is 550 Burrard St, suite 2900, Vancouver, British Columbia, Canada, V6C 0A3. Through its subsidiaries and joint ventures, collectively "the Group", the Company conducts gold mining operations and/or exploration activities in Argentina, Sudan, Côte d'Ivoire and Australia.

A portion of the Group's activities is directed to the search for and the development of new mineral deposits. The producing of 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 Group's operations. There is no assurance that the Group will have, or will 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

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and to require publicly accountable enterprises to apply such standards effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of condensed interim financial statements, including IAS 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards. Mandatory transition elections were applied according to IFRS 1 standard. Mandatory transition elections were applied according to IFRS 1. Where transition elections were not mandatory, an analysis was conducted to evaluate the potential impact on transition. The results of this analysis and of the elections taken are disclosed in note 5. The Group has consistently applied the same accounting policies in its opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 18, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010. Note 5 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual consolidated financial statements, that management considers material to an understanding of these interim consolidated financial statements.

The condensed interim consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2011 and 2010

Amounts in thousands of Canadian dollars unless otherwise stated

(unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim consolidated financial statements are disclosed in note 3.

2.2 Basis of consolidation

These condensed interim 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. Inter-company transactions and related balances are eliminated upon consolidation. The Group's principal subsidiaries and joint ventures and their percentages of ownership interest are summarized as follows:

	<u>Percentage of interest</u>	
	%	
Compagnie Minière Or S.A., domiciled in France ("Cominor")	100.0	
Ariab Mining Company, domiciled in Sudan ("AMC")	40.0	⁽¹⁾
Société des Mines d'Ity, domiciled in Ivory Coast ("SMI")	45.9	⁽¹⁾
La Mancha Resources Australia Pty Ltd, domiciled in Australia ("LMRA")	100.0	
Compania Minera Esperanza S.A., domiciled in Argentina ("Esperanza")	100.0	

⁽¹⁾ Joint venture interest.

a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) *Joint ventures*

The Group's interests in jointly controlled entities and operations are accounted for using 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.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2011 and 2010

Amounts in thousands of Canadian dollars unless otherwise stated

(unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting requested by the Board of Directors. The Board of Directors is responsible for allocating resources and assessing performance of the operating segments based on its strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The interim consolidated financial statements are presented in Canadian dollars, which is the Group's presentation currency, while the euro is the Company's functional currency.

IAS 21 requires entities to consider primary and secondary indicators when determining the functional currency. Primary indicators are closely linked to the primary economic environment in which the entity operates and are given more weight. Secondary indicators provide supporting evidence to determine an entity's functional currency. Once the functional currency of an entity is determined, it should be used consistently, unless significant changes in economic facts, events and conditions indicate that the functional currency has changed. A change in functional currency is accounted for prospectively from the date of change by translating all items (including balance sheet, statements of earnings and comprehensive income items) into the new functional currency using the exchange rate in effect at the date of change.

Historically, the functional currency of the Company was the Canadian dollar based on a comprehensive analysis of the primary and secondary indicators. Following the move of the corporate office on January 1st, 2010, a reassessment of the Company's functional currency was performed and management concluded that the most appropriate functional currency of the Company and its Argentinean subsidiary (Esperanza) going forward is the euro. The change in functional currency was applied prospectively from January 1, 2010.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of earnings, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and financial liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2011 and 2010

*Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)*

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation 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 consolidated statement of earnings 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 rate on the dates of the transactions); and
- iii) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange 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 taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statement of earnings as part of the gain or loss on sale.

2.5 Intangible assets

(a) Exploration and evaluation expenditures

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

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

- researching and analyzing 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.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2011 and 2010

*Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)*

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.5 Intangible assets (continued)

(a) Exploration and evaluation expenditures (continued)

Exploration and evaluation expenditures relating to separate areas of interest incurred after the acquisition of mineral rights are capitalized as intangible assets in the year in which they are incurred 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:
 - i) 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
 - ii) if exploration and evaluation expenditures are undertaken for an extension at depth or adjacent to the current producing mine, with qualified reserves showing economic viability (positive net present value), these costs could be capitalized. This principle is applicable even if production has been temporarily halted. If exploration and evaluation expenditures are undertaken for an extension at depth or adjacent to the previously producing mine, these expenditures could be capitalized if, and only if, the economic viability is shown and if the decision to initiate production has been confirmed by management in the provisional action plan.

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

As these assets are not available for use, they are not depreciated. All capitalized exploration and evaluation costs are recorded at acquisition cost and are monitored for indications of impairment. Where there are indications of a potential impairment, an assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the exploration is attributed. Exploration areas at which mineral resources have been discovered but that require major capital expenditure before production can begin are continually evaluated to ensure that commercial quantities of mineral resource exist or to ensure that additional exploration work is under way or planned. Capitalized expenditures are charged to the consolidated statement of earnings to the extent that they are not expected to be recovered.

(b) Software licence

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of one to three years. Computer software development costs recognized as assets are amortized over their estimated useful lives, which do not exceed three years.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2011 and 2010

Amounts in thousands of Canadian dollars unless otherwise stated

(unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.6 Property, plant and equipment

(a) *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 costs. All subsequent related development costs are capitalized and classified as mine development costs. Development costs are net of proceeds from the sale of ore extracted during the development phase. All costs related to the development of non-producing mining properties are capitalized by property until the beginning of commercial production.

(b) *Property acquisition costs, deferred exploration and development costs*

When developed ore reserves have reached commercial production, related capitalized costs in Mine development costs are reclassified as Property acquisition costs and deferred exploration and development costs. These costs are then amortized using the units of production method over the life of the reserves based on the proven and probable reserves and the non-reserve material when sufficient objective evidence exists to support the conclusion that it is probable that the non-reserve material will be produced.

According to that method, amortization is calculated using the quantity of gold in the material extracted from the mine in the period as a percentage of the total quantity of gold in the material to be extracted in current and future periods based on ore reserves. The calculation includes consideration of appropriate estimate of the future costs to be incurred in developing the estimated economic reserves.

(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 Mine development costs and subsequently amortized over the life of the operation using the unit of production method. The Group records stripping costs incurred subsequently, during the production stage of its operations as variable production costs, 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.

(d) *Other property, plant and equipment*

All other property, plant and equipment, including the assets under finance lease, are recorded at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition and is recorded as part of the development and construction of the asset.

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. The carrying amount of a replaced part is derecognized. All other repairs and maintenance costs are charged to the consolidated statement of earnings during the financial period in which they are incurred. Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Machinery and equipment	3 to 15 years
Buildings	5 to 20 years ⁽¹⁾

⁽¹⁾ Limited to the life of mining project.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.6 Property, plant and equipment (continued)

(d) Other property, plant and equipment (continued)

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates each such part separately.

The residual values and useful lives of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in "Other income (expense)" in the consolidated statement of earnings.

2.7 Impairment of non-financial assets

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 on 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 writedowns of capitalized property carrying values.

Assets that are subject to amortization are reviewed periodically to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded in the consolidated statement of earnings. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or cash generating unit). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). These are typically the individual mining projects. The estimates used for impairment reviews are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36, Impairment of Assets. If the Group does not have sufficient information on its mine development costs to estimate the cash flows to review the recoverability of capitalized costs, the Group determines impairment by comparing the fair value less costs to sell to carrying value, without considering value in use. The fair value of non-financial assets is estimated using standard methods based on quoted prices, observable data or by a recognized evaluation method at the balance sheet date.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.7 Impairment of non-financial assets (continued)

When evaluating the value in use, 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, shutdown, restoration and environmental clean-up.

The cash flow forecasts are based on best estimates of expected future revenue and costs. They may include net cash flows expected to be realized from the 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 mineralization 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 optimize the level of return from investment, output and sequence of extraction. The plan takes into account 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.

The Group's cash flow forecasts are based on 7 years of projected yearly average 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 cash generating units. For impairment reviews, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business.

The discount rate applied is based on 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 forecasted cash flows.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date when an event warrants such consideration. Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.8 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 Canadian Institute of Mining, Metallurgy and Petroleum Institute (CIM) 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 shutdown, restoration, and clean-up costs. Changes to ore reserves are applied from the beginning of the current accounting period.

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 reserve values being updated.

2.9 Embedded derivative financial instruments

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Any embedded derivative financial instrument requiring separate accounting identified by the Group is recorded on the balance sheet at fair value, and changes in its fair value is recognized immediately in the consolidated statement of earnings.

2.10 Investments

Investments in publicly traded equity securities are designated as available for-sale investments and are classified under Investments and other assets on the consolidated balance sheets. These investments are initially recorded at their fair value on the date of acquisition, plus related transaction costs. Investments in publicly listed securities are adjusted to fair value at each balance sheet date. The corresponding unrealized gains and losses are recorded in other comprehensive income and accumulated under the heading of accumulated other comprehensive income.

Where the investment is disposed of or is determined to be impaired (see note 2.25), the cumulative gain or loss previously accumulated in the accumulated other comprehensive income is reclassified to profit or loss.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.11 Inventories

Raw materials and consumable stores are valued at the lower of purchase price and net realizable value.

Partly processed inventories, such as stockpiles, heaps, ponds and cathodes, as well as saleable products are valued at the lower of cost of production, using the weighted average method, and their 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, including stripping costs;
- amortization of exploration and evaluation costs, 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 its 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.

2.12 Trade receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

An allowance for doubtful accounts 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 into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is recognized in the consolidated statement of earnings.

2.13 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. Bank overdrafts are included as a component of cash and cash equivalents in the consolidated statement of cash flows as it forms an integral part of the Group's cash management.

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

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in the consolidated statement of earnings over the term of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group is not contractually obliged to settle the liability for at least 12 months after the balance sheet date.

2.15 Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. Income tax is recognized in the consolidated statement of earnings, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet or consolidated statement of financial position date in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income taxes

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated balance sheet or consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.16 Employee benefits

The Group has commitments with respect to various benefit plans such as retirement, early retirement, severance pay, medical insurance, job-related awards, accident and disability insurance, and other related commitments, whether for active or retired personnel.

(a) Pension obligations

Group companies operate various pension schemes. Where applicable, the schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds or government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The excess of the net actuarial gain (loss) over 10% of accrued benefit obligations, or over 10% of the fair value of the plan assets where such amount is higher, is amortized over the average remaining service life of active employees.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

(b) Defined contribution plans

The Group sponsors defined contribution pension plans in Canada, Australia and Ivory Coast. For these defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Other post-employment obligations

Some Group companies provide post-retirement health care benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.16 Employee benefits (continued)

(d) *Bonus plans*

The Group recognizes a liability and an expense for bonuses. The Group recognizes a provision when it is contractually obliged.

2.17 Provisions

Provisions for environmental restoration and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured according to the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. In such case, the increase in the provision due to passage of time is recognized as finance cost.

(a) *Asset retirement obligations*

Shutdown and site restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated shutdown and restoration costs are provided for in the period when the obligation arising from the related disturbance occurs. When the provision is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset and is subsequently amortized over the life of the asset. Provisions for shutdown 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 shutdown and site restoration costs which relate to a specific asset, other than the accretion of the discount, are capitalized in 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, changes to the estimated lives of operations and changes in discount rate.

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 consolidated balance sheet date. These costs are charged to the consolidated statement of earnings. 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 consolidated statement of earnings.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.17 Provisions (continued)

(b) Provisions for litigations

Provisions for litigations result from pending or threatened litigation which could translate into possible losses. 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 from an uncertainty in recovering a portion of the value-added tax on purchases at AMC and SMI.

2.18 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 Group has reasonable assurance with respect to the measurement and collectability.

2.19 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 consolidated statement of earnings on a straight-line basis over the term of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the consolidated statement of earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

2.20 Dividends

Dividends are recorded as liabilities when declared by the Board of Directors of the Company.

2.21 Stock-based compensation

The Company records equity-settled share-based payments under which the entity receives services from employees, consultants and directors as consideration for equity instruments (options) of the Company. For employees and others providing similar services, the total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.21 Stock-based compensation (continued)

they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, corresponding to the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of earnings such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to stock options.

2.22 Earnings per share

Basic earnings or loss per share is computed using the weighted average number of common shares outstanding during the period. Provided that they are not anti-dilutive, diluted earnings 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. This method assumes that proceeds received from the exercise of stock options and warrants and any unamortized share-based compensation amounts are used to repurchase common shares at the prevailing market rate.

2.23 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.

2.24 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Cash and cash equivalents	Loans and receivables
Short-term investments	Loans and receivables
Trade and other receivable	Loans and receivables
Restricted cash	Loans and receivables
Derivative financial instruments	Fair value through profit and loss
Investments in publicly listed equity securities	Available-for-sale
Investment in Asset-Backed Term Notes	Designated as at fair value through profit or loss
Deposits and others	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.24 Financial instruments (continued)

(a) *Financial assets and financial liabilities at fair value through profit or loss*

Financial instruments at fair value through profit or loss consist of instruments that are held for trading and instruments that the Group has designated, at initial recognition date, as at fair value through profit or loss.

A financial asset or financial liability is classified at fair value through profit and loss if acquired principally for the purpose of selling or repurchasing in the short term or it is a derivative. The Group may periodically use derivative financial instruments, such as forward foreign exchange contracts, and gold and energy hedging instruments; to manage risks related to fluctuations in exchange rates and commodity prices. Derivative financial instruments are not used for speculative purposes (see note 11).

The Group has elected, at initial recognition date, to designate as at fair value through profit or loss the investments in asset-backed term notes. The notes contain embedded derivatives that would otherwise require separation from the host contract.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of earnings. Gains and losses arising from changes in fair value are presented in the consolidated statement of earnings in Gain (loss) on investments in the period in which they arise. The Investment in Assets-Backed Term-notes, which is classified at fair value through profit or loss, is classified in current assets except for the portion expected to be realized or paid beyond twelve months of the Statement of Financial Position date, which is classified as non-current.

(b) *Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Dividends on available-for-sale equity instruments are recognized in the consolidated statement of earnings as part of Gain (loss) on investments when the Company's right to receive payment is established.

When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of earnings and are included in Gain (loss) on investments.

(c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.24 Financial instruments (continued)

(d) *Financial liabilities at amortized cost*

Financial liabilities at amortized cost include trade payables, long-term debt and capital lease obligations. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long-term debt and capital lease obligations are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

2.25 Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset, other than those at fair value through profit or loss, is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

- a) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statement of earnings. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net earnings.
- b) Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment losses on available-for-sale equity instruments are not reversed in earnings. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of accumulated other comprehensive income.

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3. CHANGES IN ACCOUNTING POLICIES

IMPACT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED

International Financial Reporting Standards

(a) International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

International Financial Reporting Standard 9, Financial Instruments, ("IFRS 9") was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated as at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

(b) International Accounting Standard 12, Income Taxes, ("IAS 12")

The IASB issued on December 20, 2010 an amendment to IAS 12 Income taxes ("IAS 12") related to the recovery of underlying assets. It addresses Deferred Tax: Recovery of Underlying Assets. The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property. For the purposes of measuring deferred tax, the amendments introduce a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. The presumption can be rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time, rather than through sale. The exception also applies to investment property acquired in a business combination if the acquirer applies the fair value model in IAS 40 subsequent to the business combination. The amendments also incorporate the requirements of SIC-21 Income Taxes- Recovery of Revalued Non-Depreciable Assets into IAS 12, i.e., deferred tax arising on a non-depreciable asset measured using the revaluation model in IAS 16 should be based on the sale rate. The effective date of the amendments is for annual periods beginning on or after January 1, 2012. Earlier application is permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. 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 consolidated 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 consolidated financial statements. Areas of judgment that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(a) Mineral reserves

Estimating mineral reserves is a complex process involving variables of very uncertain natures and requiring important and advisable decisions. This process involves variables such as geological data on the structure of each pit, production cost estimates and the future price of gold. Mineral reserves and resources have been estimated by the Group 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 Group'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 commodity prices subsequent to the date of an estimate, may justify revision of such estimate.

The key operating parameters used to determine mineral reserves are summarized as follows.

Mine	Average metallurgical recovery (Gold %)	Cut-Off grades (g AU/t)	Gold price used (US\$/OZ)
Hassaï Mine	66 to 86 ¹	0.8 to 1.5 ¹	650
Ity Mine	80	2.0	650
Frog's Leg	94.9	3.0	711
White Foil	91	1.2	810

(1) Varies depending on ore type

Our reserve estimates may have a great impact on the information contained in our consolidated financial statements. A number of accounting estimates, as described below, are formulated from the reserve estimate.

(b) Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

Periodically, we evaluate the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if we believe that it is probable that some portion of the deferred tax assets will fail to be realized, the Company records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires management to make significant judgment. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the consolidated balance sheet date could be impacted.

(c) Impairment of non-financial assets

The Company's fair value in use measurement with respect to the carrying amount of non-financial assets are based on numerous assumptions and may differ significantly from actual fair values.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) *Impairment of non-financial assets (continued)*

The fair values are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated fair values of non-financial assets to their carrying values. The Company's fair value estimates are based on numerous assumptions such as, but not limited to, estimated realized gold prices, operating costs, gold recovery, mineral reserves, capital and site restoration expenditures and estimated future foreign exchange rates. The fair value estimates may differ from actual fair values and these differences may be significant and could have a material impact on the Company's financial position and result of operations. Mineral reserve estimates are the most important variable in the Company's fair value estimates. A decrease in the Company's reserves may result in an impairment charge, which could reduce the Company's earnings.

Management's estimate of future cash flows is subject to risk and uncertainties. Therefore, it is reasonably possible that changes could occur with evolving economic conditions, which may affect recoverability of the Company's non-financial assets.

Assets are reviewed for an indication of impairment at each consolidated balance sheet date. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, and current, historical or projected losses that demonstrate continuing losses.

(d) *Depreciation of property, plant and equipment*

A large portion of the property, plant and equipment is depreciated using the units of production method over the expected operating life of the mine based on estimated recoverable ounces of gold, which are the prime determinants of the life of a mine. Estimated recoverable ounces of gold include proven and probable reserves and non-reserved material when sufficient objective evidence exists that it is probable the non-reserve material will be produced. Changes in mineral reserve estimates will result in changes to the depreciation charges over the remaining life of the operation. A decrease in the mineral reserves would increase depreciation expense, and this could have a material impact on the operating results. A 10% adjustment in estimated total mineral reserve could result in an approximately \$2,156 annual change in depreciation expense.

(e) *Asset retirement obligations*

Asset retirement obligations arise from the development, construction and normal operation of mining property, plant and equipment as mining activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing, and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations.

The estimated present value of reclamation liabilities is recorded in the period in which the liabilities are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The liability will be increased each period to reflect the interest element and will also be adjusted for changes in the discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

Future remediation costs are accrued based on management's best estimate at the end of each period of the undiscounted cash costs expected to be incurred at each site. Changes in estimates are reflected in earnings in the period during which an estimate is revised. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs they will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. The Company establishes estimates for future restoration costs following the depletion of mineral reserves. The estimates are dependent on labour costs, known environmental impacts, the effectiveness of remedial and restoration measures, inflation rates and pre-tax interest rates that reflect current market assessment of time value for money and the risk specific to the obligation. The Company also estimates the timing of the outlays, which is subject to change depending on continued exploitation and newly discovered mineral reserves.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(e) *Asset retirement obligations (continued)*

Actual costs incurred may differ from those estimated amounts. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. Based on the current situation, we estimate that a 10% increase in total future remediation costs would result in an approximately \$371 increase in the asset retirement obligations.

(f) *Valuation of inventory*

Stockpiles represent coarse ore that has been extracted from the mine and is available for further processing. Stockpiles are measured by physical surveying or by estimating the number of tonnes of ore added and removed from the stockpile during a period. The number of contained ounces is based on sample assay data, and the estimated gold recovery percentage is based on the expected processing method. Stockpile values are based on mining costs incurred up to the point of stockpiling the ore, including a share of direct overhead and applicable depreciation of property, plant and equipment relating to mining operations. Costs are added to a stockpile based on current mining costs and removed at the average mining cost per ton for material processed. Stockpiles are reduced as material is removed and fed to the mill.

(g) *Pension and other employee benefits*

Benefit costs for defined benefit plans are estimated using the projected benefit method. Under this method, accrued pension benefits are allocated among service periods based on the plan vesting formula. 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 assumptions can have a significant impact on the estimate of liabilities. Actuarial provisions are calculated by the financial department of the majority shareholder.

5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The effect of the Group's transition to IFRS, described in note 2, is summarized in this note as follows:

- (i) Transition elections;
- (ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS;
- (iii) Adjustments to consolidated statement of cash flows; and
- (iv) Additional IFRS information for the year ended December 31, 2010.

(i) **Transition exemptions**

The Group has applied the following transition exemptions to full retrospective application of IFRS:

	As described in note 5(ii)
Cumulative translation adjustment	b
Business combinations	c
Share-based payment transactions	d
Leases	e
Decommissioning liabilities included in the cost of property, plant and equipment	f
Compound financial instruments	g
Borrowing costs	h

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5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

		December 31, 2010			March 31, 2010			January 1, 2010		
5(ii)	CA GAAP \$	Adj. \$	IFRS \$	CA GAAP \$	Adj. \$	IFRS \$	CA GAAP \$	Adj. \$	IFRS \$	
Assets										
Current assets										
	Cash and cash equivalents	32,899	-	32,899	13,648	-	13,648	13,087	-	13,087
	Short-term investments	5,485	-	5,485	7,742	-	7,742	8,448	-	8,448
	Trade and other receivables	14,181	-	14,181	10,133	-	10,133	11,096	-	11,096
	Income taxes recoverable	-	-	-	248	-	248	323	-	323
	Inventories	29,359	-	29,359	34,304	-	34,304	35,741	-	35,741
	Deferred Future income tax asset	565	(565)	-	384	(384)	-	400	(400)	-
	Other current assets	803	-	803	1,624	-	1,624	1,554	-	1,554
	Derivative financial instruments	611	-	611	415	-	415	1,211	-	1,211
		83,903	(565)	83,338	68,498	(384)	68,114	71,860	(400)	71,460
Non-current assets										
	Restricted cash	2,046	-	2,046	1,887	-	1,887	1,903	-	1,903
	Deferred income tax asset	1,557	565	2,122	5,821	384	6,205	7,011	400	7,411
	Derivative financial instruments	-	-	-	-	-	-	334	-	334
	Investments and other assets	7,741	-	7,741	9,213	-	9,213	9,090	-	9,090
	Property, plant and equipment	81,821	(3,188)	78,633	77,034	(2,114)	74,920	76,944	(2,114)	74,830
	Intangible assets	498	3,188	3,686	428	2,114	2,542	562	2,114	2,676
		93,663	565	94,228	94,383	384	94,767	95,844	400	96,244
Total assets										
		177,566	-	177,566	162,881	-	162,881	167,704	-	167,704
Liabilities										
Current liabilities										
	Bank overdraft	-	-	-	26	-	26	-	-	-
	Accounts payable and accrued liabilities	17,553	-	17,553	17,590	-	17,590	16,356	-	16,356
	Income taxes payable	4,162	-	4,162	3,371	-	3,371	4,065	-	4,065
	Current portion of finance lease obligations	2,244	-	2,244	2,023	-	2,023	2,092	-	2,092
	Derivative financial instruments	511	-	511	393	-	393	1,162	-	1,162
	Provisions	302	-	302	3,046	-	3,046	3,094	-	3,094
	Pension and other post-service benefit obligations	916	-	916	703	-	703	735	-	735
	Deferred income tax liability	20	(20)	-	-	-	-	-	-	-
		25,708	(20)	25,688	27,152	-	27,152	27,504	-	27,504
Non-current liabilities										
	Deferred income tax liability	3,343	20	3,363	78	-	78	96	-	96
	Long-term debt	-	-	-	14,294	-	14,294	16,112	-	16,112
	Finance lease obligations	1,534	-	1,534	1,773	-	1,773	2,273	-	2,273
	Derivative financial instruments	-	-	-	-	-	-	383	-	383
	Provisions	6,673	-	6,673	3,734	-	3,734	3,755	-	3,755
	Pension and other post-service benefit obligations	1,876	20	1,876	1,679	-	1,679	1,749	-	1,749
		13,426	-	13,446	21,558	-	21,558	24,368	-	24,368
Total liabilities										
		39,134	-	39,134	48,710	-	48,710	51,872	-	51,872
Equity										
	Common stock	42,026	-	42,026	41,541	-	41,541	41,541	-	41,541
	Stock options	184	-	184	190	-	190	156	-	156
	Contributed surplus	44,160	-	44,160	44,139	-	44,139	44,139	-	44,139
	Accumulated other comprehensive income	764	(2,261)	(1,497)	(2,922)	(2,261)	(5,183)	2,436	(2,261)	175
	Retained earnings	51,298	2,261	53,559	31,223	2,261	33,484	27,560	2,261	29,821
Total equity										
		138,432	-	138,432	114,171	-	114,171	115,832	-	115,832
Total liabilities and equity										
		177,566	-	177,566	162,881	-	162,881	167,704	-	167,704

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5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS (continued)

5(ii)	For the year ended December 31, 2010			For the three-month period ended March 31, 2010		
	CA GAAP \$	Adj. \$	IFRS \$	CA GAAP \$	Adj. \$	IFRS \$
Revenue	164,693		164,693	27,840		27,840
Cost of sales	(107,893)		(107,893)	(17,362)		(17,362)
Gross margin	56,800		56,800	10,478		10,478
Operating expenses						
Exploration and evaluation expenses	7,278		7,278	1,440		1,440
General and administrative expenses	11,304		11,304	2,928		2,928
Other operating expenses	1,105		1,105	279		279
Joint venture management fee recoveries	(852)		(852)	(71)		(71)
	(18,835)		(18,835)	(4,576)		(4,576)
Mine operating earnings	37,965		37,965	5,902		5,902
Other income (expenses)						
Finance income	(i) -	729	729	-	189	189
Finance costs	(i) (108)	(729)	(837)	(126)	(189)	(315)
Gain on investments	811		811	6		6
Foreign exchange gain (loss)	(101)		(101)	4		4
Other expense	(176)		(176)	(41)		(41)
	426		426	(157)		(157)
Earnings before income tax expense	38,391		38,391	5,745		5,745
Income tax expense	(14,653)		(14,653)	(2,082)		(2,082)
Net earnings for the period	23,738		23,738	3,663		3,663
Net earnings for the period	23,738		23,738	3,663		3,663
Other comprehensive income						
Change in cumulative translation adjustments	(1,603)		(1,603)	(5,546)		(5,546)
Change in unrealized gains and losses on available-for-sale investments, net of income taxes (for the year ended December 31, 2010 – \$(22); for the period ended March 31, 2010 – \$ (81))	52		52	190		190
Amount reclassified to consolidated statement of earnings (net of income taxes (for the year ended December 31, 2010 – \$52; for the period ended March 31, 2010 – \$1))	(121)		(121)	(2)		(2)
Other comprehensive (loss) for the period	(1,672)		(1,672)	(5,358)		(5,358)
Comprehensive income (loss) for the period	22,066		22,066	(1,695)		(1,695)

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5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS (continued)

Explanatory notes

- a) In accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration and evaluation assets shall be classified as intangible or tangible according to the nature of the assets acquired and the classification should be applied consistently. Under Canadian GAAP, all exploration and evaluation assets were included in Property, plant and equipment. Per the Group's accounting policy, unless an asset has a tangible nature, all capitalized exploration and evaluation costs are classified as intangible assets since they usually comprise costs which are directly attributable to:
- researching and analyzing 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.

As at the transition date, all capitalized exploration and evaluation costs were reclassified as intangible assets.

- b) In accordance with IFRS 1, the Group has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS, namely January 1 2010. Accumulated other comprehensive income has been reduced and retained earnings has been increased by \$2,261.
- c) In accordance with IFRS 1, the Group elected not to apply IFRS 3, Business Combinations, (as revised in 2008) to business combinations occurring before January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date have been carried forward without adjustment.
- d) In accordance with IFRS 1, the Group elected to apply IFRS 2, Share-based Payments, prospectively. This exemption enables the Corporation to apply IFRS 2 "Share-based payments" retrospectively at the transition date only to equity instruments that were attributed after November 7, 2002 and had not vested by the IFRS transition date. At transition date no material adjustments were identified. Therefore no significant adjustment was required. Canadian GAAP balances of equity components relating to share-based payment transactions entered into before that date have been carried forward without adjustment.
- e) In accordance with IFRS 1, the Group has elected to apply the transitional provisions in IFRIC 4, Determining whether an Arrangement contains a Lease, at the date of transition to all arrangements other than those entered into or modified since January 1, 2005, as such arrangements have already been assessed under requirements similar to those of IFRIC 4. No impact resulted from the review of arrangements.
- f) IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities, requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates. In accordance with the related IFRS 1 optional exemption, the Group elected not to comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRS. As a result, the cost of the assets to which decommissioning, restoration or similar liability relates, as previously determined under Canadian GAAP, remained unchanged at transition date. Moreover, no material adjustments were identified in result of the application of the measurement guidance provided under this exemption to remeasure the existing provision. .

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5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS (continued)

Explanatory notes (continued)

- g) IAS 32, Financial Instruments: Presentation, requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity. In accordance with IFRS 1, the Group did not separate these two portions if the liability component was no longer outstanding at the date of transition to IFRS. As a result, there was no adjustment to the consolidated balance sheet.
- h) In accordance with IFRS 1, the Group has elected to apply IAS 23, Borrowing Costs, prospectively from January 1, 2010. As such, the accounting treatment for borrowing costs incurred before January 1, 2010 was not adjusted. No new borrowing agreements were signed during 2010.
- i) Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or current liabilities must be classified as current. Accordingly, current deferred income tax asset and current deferred income tax liability reported under Canadian GAAP of \$400 and nil as at January 1, 2010, \$384 and nil as at March 31, 2010 and \$565 and \$20 as at December 31, 2010, have been reclassified as non-current under IFRS.
- j) Under IFRS, the finance income and finance cost are presented separately in the consolidated statement of earnings. Under Canadian GAAP, net interest expense was presented in the consolidated statement of earnings. A finance income balance of \$189 as at March 31, 2010 (\$729 as at December 31, 2010) has been reclassified to finance income in the consolidated statement of earnings.

(iii) Adjustments to consolidated statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on the cash flows reported by the Group.

(iv) Additional IFRS information for the year ended December 31, 2010

- a) Compensation of key management

Compensation awarded to key management included:

	For the year ended December 31, 2010
Salaries and short-term employee benefits	1,491,281
Post-employment benefits	—
Share-based payments	81,366
Termination benefits	—
Other long-term benefits	—
	<u>1,572,647</u>

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5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

(iv) Additional IFRS information for the year ended December 31, 2010 (continued)

b) Expense by nature

	For the year ended December 31, 2010
Raw material and consumable used	24,397
Change in inventories of finished goods and work in progress	3,147
Depreciation and amortization	23,674
Other provisions	(162)
Employee benefit expenses (c)	22,298
Sub-contracting and maintenance	27,052
Shipping and transportation costs.	5,566
Operating lease rentals	2,048
Taxes, dues and royalties	6,666
Other expenses	12,042
	<u>126,728</u>

c) Employee benefit expenses

	For the year ended December 31, 2010
Wages , salaries and variable compensations	15,842
Social security costs	3,808
Share-based compensation	135
Other	2,513
	<u>22,298</u>

d) Operating lease rental expense

In the normal conduct of operations, the Group is engaged in capital commitments related to lease obligations of office spaces and mining equipments. The terms and conditions of these leases vary and contain renewal options and escalation clauses.

	For the year ended December 31, 2010
Commercial leases on plant and mining equipment	1,067
Lease of office spaces and equipments	981
	<u>2,048</u>

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5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

(iv) Additional IFRS information for the year ended December 31, 2010 (continued)

e) Earnings per share

Basic

Basic earnings per share is calculated by dividing the net earnings attributable to owners of the parent company by the weighted average number of ordinary shares outstanding during the year.

	For the year ended December 31, 2010
Net earnings for the year	\$23,738
Weighted average number of ordinary shares outstanding	142,395,453
Basic earnings per share	<u>\$0.1667</u>

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	For the year ended December 31, 2010
Net earnings for the year	\$23,738
Weighted average number of ordinary shares outstanding	142,395,453
Dilutive effect of stock options	173,210
Weighted average number of ordinary shares for diluted earnings per share	<u>142,568,663</u>
Diluted earnings per share	<u>\$0.1665</u>

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5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

(iv) Additional IFRS information for the year ended December 31, 2010 (continued)

f) Property, plant and equipment

	Land and building	Machinery and equipment (1)	Work in progress	Property acquisition, exploration and development costs	Mining development costs	Total
As at January 1, 2010						
Cost	4,658	88,750	3,551	83,650	11,901	192,510
Accumulated depreciation	(1,857)	(66,618)	-	(49,205)	-	(117,680)
Carrying value	2,801	22,132	3,551	34,445	11,901	74,830
Year ended December 31, 2010						
Opening net book value	2,801	22,132	3,551	34,445	11,901	74,830
Exchange difference	(86)	(891)	(44)	693	514	186
Additions	2,307	9,304	2,093	14,509	356	28,569
Disposals	-	(1,480)	-	-	-	(1,480)
Transfers	971	3,283	(4,254)	12,458	(12,458)	-
Depreciation charge	(551)	(6,503)	-	(16,418)	-	(23,472)
Closing net book value	5,442	25,845	1,346	45,687	313	78,633
As at December 31, 2010						
Cost	7,669	92,144	1,346	111,336	313	212,808
Accumulated depreciation	(2,227)	(66,299)	-	(65,649)	-	(134,175)
Carrying value	5,442	25,845	1,346	45,687	313	78,633

(1) Includes \$8,583 of equipment under finance leases less accumulated depreciation of \$2,982. The leases final maturities range from February 2011 to November 2013.

For the year ended December 31, 2010, the Group recorded depreciation and amortization of \$23,278 as part of the cost of sales and \$194 as part of the general and administration expenses in the consolidated statement of earnings.

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5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

(iv) Additional IFRS information for the year ended December 31, 2010 (continued)

g) Intangible assets

	Capitalized exploration and evaluation costs	Software	Total
As at January 1, 2010			
Cost	2,114	1,188	3,302
Accumulated amortization	-	(626)	(626)
Carrying value	2,114	562	2,676
Year ended December 31, 2010			
Opening net book value	2,114	562	2,676
Exchange difference	(103)	22	(81)
Additions	1,177	116	1,293
Amortization charge	-	(202)	(202)
Closing net book value	3,188	498	3,686
As at December 31, 2010			
Cost	3,188	1,362	4,550
Accumulated amortization	-	(864)	(864)
Carrying value	3,188	498	3,686

For the year ended December 31, 2010, the Group recorded depreciation and amortization of \$117 as part of the cost of sales and \$85 as part of the general and administration expenses in the consolidated statement of earnings.

6. INVENTORIES

	As at March 31 2011	As at December 31 2010	As at January 1 2010
Raw materials and consumable stores	5,635	5,619	5,331
Work in progress, including stockpiles	18,675	23,141	20,966
Finished goods	736	599	9,444
	25,046	29,359	35,741

7. INVESTMENTS AND OTHER ASSETS

	As at March 31 2011	As at December 31 2010	As at January 1 2010
Investments in Australian listed equity securities (see (a))	313	348	2,144
Investment in Asset Backed Term-Notes (see (b))	7,209	7,149	6,821
Deposits and prepaid expenses	244	244	125
	7,766	7,741	9,090

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7. INVESTMENTS AND OTHER ASSETS (CONTINUED)

(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 issued shares of each. Fair value is ascertained by reference to the quoted bid price of the shares at period end.

	As at March 31	As at December 31	As at January 1
	2011	2010	2010
Aggregate unrealized gains	163	200	290
Aggregate unrealized losses	(42)	(49)	(40)
Deferred income taxes	(36)	(45)	(75)
	<u>85</u>	<u>106</u>	<u>175</u>

(b) Investment in Asset-Backed Term-Notes

As at March 31, 2011, the Company continues to hold the following notes issued by Master Asset Vehicle II ("MAV 2"): \$2,918 of Class A-1 Notes, \$6,521 of Class A-2 Notes, \$1,184 of Class B Notes, and \$329 of Class C Notes (collectively the "Long-term Notes"). The Class A-1 Notes, Class A-2 Notes, and Class B Notes accrue interest at the Bankers' Acceptances ("BA") rate less 0.50%. The Class C Notes accrue interest at the BA rate plus 20%.

The Class A-1 and A-2 Notes have been originally rated A by DBRS. The Class B and C Notes have not been rated nor have the Class IA Notes received by the Company. On August 11, 2009, the rating agency DBRS downgraded the credit rating of the Class A-2 Notes from A to BBB (low) and placed them Under Review with Negative Implications. On February 9, 2010, DBRS confirmed the BBB (low) rating and removed the Under Review with Negative Implications status citing the passage of time and the recent stability in the credit environment. On September 21, 2010, DBRS upgraded the Class A-1 Notes to A (high) and confirmed the BBB (low) rating of the Class A-2 Notes.

The Term-notes have been designated as held-for-trading. Although there have been some isolated transactions subsequent to the completion of the Plan restructuring on January 21, 2009, there were no active market quotations available for these Long-Term Notes as of March 31, 2011. The Class A-1, A-2, B and C Notes legally mature in 2056. However, the expected maturity date is in 2016.

As at March 31, 2011, there remained a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Long-Term Notes. The Company estimates the fair values of the Long-Term Notes 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 March 31, 2011. The discount rates consider factors that include the BA rate, credit spread applicable to the credit rating, and premiums for lack of liquidity.

Due to their characteristics and the market conditions, the Group estimated that the fair value of the Class C Notes is nil as at March 31, 2011. Due to credit events, the supporting assets of the IA Tracking Note Class 3 were sold to Deutsche Bank by the fund manager. Following the liquidation of the fund, a final payment to noteholders, representing cumulated interest, was issued on February 4, 2011. The carrying value of IA Tracking Note Class 3 recorded as at December 31, 2010 was nil. For the three-month period ending March 31, 2011, no impact was recorded in the condensed interim statement of earnings following this liquidation.

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7. INVESTMENTS AND OTHER ASSETS (CONTINUED)

(b) Investment in Asset-Backed Term-Notes (continued)

Based on the discounted cash flow model as at March 31, 2011, the fair value of the Company's Notes was estimated at \$7,209 (2010: \$7,149). The change in value recorded during the period ended March 31, 2011 was due to a fair value adjustment recovery of \$60 (2010: \$330) due to lower discount rates. In 2010, the Group also received principal repayments of \$2 during the year.

Since the fair value of the Long-Term Notes is determined using a probability-weighted approach employing the foregoing assumptions and is based on the Group's assessment of market conditions as at March 31, 2011, and despite the fact that the restructuring took place on January 21, 2009 the fair value reported may change materially in subsequent periods.

A 1% increase in the discount rate will decrease the fair value by approximately \$345 (2010:\$346).

8. EARNINGS PER SHARE

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

	Three-month period ended March 31	
	2011	2010
Basic:		
Net earnings for the period	\$7,504	\$3,663
Basic weighted average number of common shares outstanding	142,660,850	142,184,350
Earning per share - basic	\$0.053	\$0.024
Diluted:		
Net earnings for the period	\$7,504	\$3,663
Basic weighted average number of common shares outstanding	142,660,850	142,184,350
Dilutive effect of stock options	146,385	38,722
Diluted weighted average number of common shares outstanding	142,807,235	142,223,072
Earning per share - diluted	\$0.053	\$0.024

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9. SHARE-BASED PAYMENTS

Options

The Group's stock option plan is 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.

On March 29, 2011, the Company granted 30,000 stock options to employees, exercisable at \$2.23. One half of the options vest in 2013 and the other half vest in 2014 and expire in March 2016. The grant date fair values of \$0.9602, per option are based on the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.77%, expected volatility of 69%, expected dividend of nil and expected life of 5 years. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last two years.

	Three-month period ended March 31, 2011		
	Number	Carrying value \$	Weighted average exercise price \$ per share
Beginning of period	945,000	184	0.84
Granted	30,000	–	2.23
Forfeited	(350,000)	(62)	(0.73)
Stock based compensation	–	12	–
End of the period	625,000	134	0.97

In accordance with the Company's stock option plan, the options held by executive of the Company expire 30 calendar days following the end of a contractual agreement. A total of 350,000 options were forfeited during the first quarter of 2011 in connection with the end of a contractual agreement.

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9. SHARE-BASED PAYMENTS (CONTINUED)

Options (continued)

As at March 31, 2011, the options outstanding under the plan are as follows:

Range of exercise prices	Number of options	Options outstanding			Options exercisable	
		Weighted-average remaining contractual life	Weighted-average exercise Price (\$)	Weighted-average grant date fair value (\$)	Number of options	Weighted average exercise price (\$)
\$0.30	20,000	3.4	\$0.30	\$0.10	—	—
\$0.46	220,000	3.0	\$0.46	\$0.15	100,000	\$0.46
\$0.66	120,000	4.1	\$0.66	\$0.25	—	—
\$0.86	80,000	2.1	\$0.86	\$0.46	80,000	\$0.86
\$1.50	45,000	0.1	\$1.50	\$0.04	45,000	\$1.50
\$1.64	40,000	4.8	\$1.64	\$0.67	—	—
\$1.98	50,000	4.0	\$1.98	\$0.81	—	—
\$2.23 to \$2.50	50,000	4.6	\$2.34	\$0.85	—	—
	625,000	3.2	\$0.97	\$0.34	225,000	\$0.81

10. RISK MANAGEMENT

Hedges

As at March 31, 2011, the Group held gold collar derivative contracts for its African and Australian operations. These collars are detailed as follow:

	Ounces covered	Average Strike price		Maturity	
		Put	Call	From	To
African operations:	10,226	€966/oz	€1,097/oz	April 2011	January 2012
Australian operations:	14,365	AU\$1,241/oz	AU\$1,730/oz	April 2011	January 2012

The terms of the collar derivative contracts specify that the settlement is in cash, and is based on the average London Bullion Market Association price ("Asian" options) for the month in which the derivatives settle.

For the three-month period ending March 31, 2011, two options were exercised generating a loss of \$137 (2010: nil) recorded in other operating expenses in the condensed interim consolidated statement of earnings.

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10. RISK MANAGEMENT (CONTINUED)

Hedges (continued)

The following table sets forth the changes in the fair value of the hedging instruments accounted for in the consolidated financial statements:

	As at March	As at December	As at January
	31	31	1
	2011	2010	2010
Derivatives hedging instruments:			
Gold call options sold	241	611	1,542
Gold put options bought	(177)	(511)	(1,545)
Total	64	100	(3)
Classification of derivative hedging instruments:			
Assets			
Current assets portion	241	611	1,208
Long-term assets portion	–	–	334
Total assets	241	611	1,542
Liabilities			
Current liabilities portion	(177)	(511)	(1,162)
Long-term liabilities portion	–	–	(383)
Total liabilities	(177)	(511)	(1,545)
Total net	64	100	(3)

	For the Three-month period ended March 31	
	2011	2010
Changes in fair value of hedging instruments		
Changes in time value of hedging instruments recorded in other operating expenses in the consolidated statement of operations	50	13
Changes in intrinsic value of hedging instruments recorded in other operating expenses in the consolidated statement of operations	(72)	–
Total at the end of the period	(22)	13

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11. SEGMENTED INFORMATION

Management has determined the operating segments based on the reports reviewed by the board of Directors that are used to make strategic decisions. Inter-Segment transactions are eliminated from the revenue and cost of sales in the condensed interim statement of earnings.

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 Group's joint venture interest in the operations of SMI, 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 Group's operations of LMRA. LMRA's mining operations are from its two principal properties in Western Australia, Frog's Leg and White Foil. The Frog's Leg underground mine started commercial production in January 2009. Extraction of ore at the White Foil mine resumed in March 2010, and processing began during the second quarter of 2010. LMRA also holds exploration interests in Western Australia and, to a lesser extent, in Queensland;
- **Argentina** reflects the exploration activities carried out by Compania Minera Esperanza S.A.

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

Revenue is allocated based on the country in which the gold is produced. Each of the Ivory Coast, Sudan and Australia segments has one major customer that accounts for the majority of its revenue. Assets are attributed to where they are located. The Group analyzes the performance of its operating segments based on their net earnings.

The tables below summarize the selected financial information by segment:

	Three-month period ended March 31, 2011					
	Ivory Coast	Sudan	Australia	Argentina	Other	Total
Revenue	3,445	10,035	28,799	–	1,091	43,370
Inter-segment revenue	–	–	–	–	(348)	(348)
Revenue from external sources	3,445	10,035	28,799	–	743	43,022
Mine operating earnings (loss)	411	3,325	9,023	(544)	(1,312)	10,903
Finance income	24	23	232	5	29	313
Finance expense	–	–	(103)	–	–	(103)
Income tax expense	(228)	(500)	(2,752)	–	(170)	(3,650)
Net earnings/(loss)	207	2,848	6,353	(539)	(1,365)	7,504
Depreciation and amortization	627	933	4,424	–	25	6,009
Capital expenditures	127	1,968	3,220	(22)	3	5,296

	As at March 31, 2011					
	Ivory Coast	Sudan	Australia	Argentina	Other	Total
Property, Plant and equipment and intangible assets	12,512	17,191	50,435	365	1,177	81,680
Total assets	29,448	47,958	93,874	732	16,672	188,684
Total liabilities	(7,534)	(5,956)	(22,931)	(13)	(4,929)	(41,363)

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11. SEGMENTED INFORMATION (CONTINUED)

	Three-month period ended March 31, 2010					
	Côte d'Ivoire	Sudan	Australia	Argentina	Other	Total
Revenue	5,716	8,568	13,257	–	616	28,157
Inter-segment revenue	–	–	–	–	(317)	(317)
Revenue from external sources	5,716	8,568	13,257	–	299	27,840
Mine operating earnings (loss)	2,395	1,818	4,219	(316)	(2,214)	5,902
Finance income	94	9	83	–	3	189
Finance expense	–	–	(315)	–	–	(315)
Income tax expense	(592)	(300)	(1,140)	–	(50)	(2,082)
Net earnings/(loss)	1,897	1,527	2,812	(310)	(2,263)	3,663
Depreciation and amortization	532	814	2,554	–	20	3,920
Capital expenditures	1,764	746	3,980	10	47	6,547

	As at December 31, 2010					
	Ivory Coast	Sudan	Australia	Argentina	Other	Total
Property, Plant and equipment and intangible assets	12,585	15,587	52,564	388	1,195	82,319
Total assets	27,911	43,616	91,212	1,003	13,824	177,566
Total liabilities	(6,984)	(5,946)	(21,476)	(7)	(4,721)	(39,134)

12. COMMITMENTS AND CONTINGENCIES

Compania Minera Patagonia S.A.

On December 30, 2009, a petition to extend the bankruptcy to the Group and a former Director was filed in front of the Commercial Court of the City of Buenos Aires. The Group was served with process of the extension of bankruptcy requested by the trustee on April 29, 2010. La Mancha filed its response to the complaint on August 11, 2010. At the time of reporting, management is awaiting the court's final decision.

Once the liquidation procedures will be completed and the Company is relieved from any obligation, the liability will be reversed into the consolidated statement of earnings.

Compania Minera El Colorado

On September 23, 2009, the Group was served with a lawsuit of US\$29,000 before the Commercial Court of the City of Buenos Aires by a former partner in the Hualian II project, the Compañía Minera El Colorado ("El Colorado") of Argentina. A request for clarification was sent by the Group to the court. On March 23, 2011, the court held an evidence hearing to determine the facts that are disputed and to attempt a settlement. No settlement was reached and the court is presently evaluating the evidence submitted by the plaintiff. At the time of reporting, management has no information to evaluate the possible outcome of this lawsuit. No accrual has been recorded with respect to this case.

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12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

La Ortiguita Gold Project

The Group is committed through a joint venture agreement with TNR Gold Corp., owner of La Ortiguita's mining property rights. The Group has acquired a 42.66% interest by making some cash payments, share issuances and by completing a program of expenditures on the mining property between the years 2005 through 2009.

On September 30, 2009, the Group concluded an agreement with TNR Gold Corp. for a second phase of the agreement. At the end of this second phase, the Group may acquire an additional 32.34% interest, for a total of 75% interest.

In order to complete the second phase of the agreement, the Group is committed to spend an additional \$776 (US\$800) before July 15, 2011 as part of the expenditure program. As of March 31, 2011, the Group has almost completed its expenditure program for the years 2010-2011 with an accumulated amount of \$558 (US\$566) in expenditures.

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 additional earned interest and will have no further obligations toward TNR Gold with respect to this agreement. Upon exercise of the second option by the Group, a joint venture will be formed to fund all programs on the property. In the event of a commercial production of the property, the joint venture will have to pay to TNR Gold a Net Smelter Royalty of 1.5% on the total production.

Atlas Guerci mining property

On September 3rd, 2010, the Group signed an agreement with Minera El Quevar S.A. of Argentina for the transfer of its rights on the mineral property of Atlas Guerci, located in the Santa Cruz province. At term, the Group will receive total payments amounting to \$1,261 (US\$1,300) for the transfer of 100% of its rights.

Per the agreement, payments are to be made over the next five years transferring a percentage of the property. As of March 31, 2011, the Group has received the second payment of \$25 (US\$25), which was recorded as a reduction of the cost of the property, plant and equipment in the consolidated balance sheet.

As of March 31, 2011, the future payments to be received are scheduled as follows:

	Cash payment	% of ownership transferred
September 3 rd , 2011	\$73 (US\$75)	—
September 3 rd , 2012	\$146 (US\$150)	60%
September 3 rd , 2013	\$243 (US\$250)	60%
September 3 rd , 2014	\$340 (US\$350)	60%
September 3 rd , 2015	\$412 (US\$425)	100%

The buyer may elect at any time to terminate the agreement with the Group before completing all the scheduled payments. In this case, the Group will only transfer the acquired percentage to the buyer in accordance with the payments made. Upon the transfer of 100% of the rights of the property, the buyer also has the option to acquire the Net Smelter Royalty of 2.0% before the start of production for \$1,941 (US\$2,000).

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13. SUBSEQUENT EVENT

On February 24, 2011, the Group has announced the temporarily interruption of its Ity mine activities in Ivory Coast due to the country's current political situation. On May 9, 2011, following the improved political situation in Ivory Coast, operating activities at its Ity mine resumed while its exploration activities in the country are expected to gradually recommence in the coming months.

The precautionary measures taken at Ity to safeguard the plant and the mining assets proved effective as the equipment remained mainly intact and fully operational. As such, production at Ity is expected to return to its forecasted level by the end of May. At the time of reporting, it is management opinion that no material provision needs to be taken as a result of this temporarily interruption. Additional surveys are being conducted to fully assess the status of damages that may have occurred during the interruption period.



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