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LMA-TSX

QUARTERLY REPORT – SECOND QUARTER

11



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# HIGHLIGHTS

(unaudited)

(All amounts are in CDN dollars unless otherwise noted)

	Second Quarter ended June 30,		First 6 months ended June 30,	
	2011	2010	2011	2010
<b>RESULTS (consolidated, in thousands of \$)</b>				
Revenues	45,980	54,541	89,002	82,381
Cash flow from operating activities	14,609	18,703	41,150	28,651
Net earnings (loss)	11,280	8,046	18,784	11,709

## PER SHARE (\$)

Net earnings (loss)	0.08	0.06	0.13	0.08
Basic weighted average number of common shares outstanding (in thousands)	142,695	142,237	142,678	142,211

## ATTRIBUTABLE GOLD PRODUCTION

Number of ounces produced	34,632	42,857	67,058	64,511
Mine operating costs (US\$ per ounce)	657	581	637	592

June 30, 2011      December 31, 2010

## FINANCIAL POSITION (in thousands of \$)

Cash and short-term investments	70,708	38,384
Total assets	205,588	177,566
Shareholders' equity	162,402	138,432
Total number of shares outstanding (in thousands)	142,706	142,661

	Second Quarter ended June 30,		First 6 months ended June 30,	
	2011	2010	2011	2010

## GOLD PRODUCTION STATISTICS

### Australian Operations

#### Frog's Leg (51%)

Attributable Production (ounces)	15,376	24,706	37,667	34,495
Tonnage milled (t)	71,198	152,828	166,585	208,492
Grade milled (g Au/t)	7.2	5.4	7.5	5.5
Recovery rate (%)	94	94	94	94
Cash costs (US\$ per ounce)	565	488	560	511

#### White Foil (100%)

Attributable Production (ounces)	7,963	5,959	8,043	5,959
Tonnage milled (t)	86,140	89,678	87,671	89,678
Grade milled (g Au/t)	3.1	2.2	3.1	2.2
Recovery rate (%)	92	93	92	93
Cash costs (US\$ per ounce)	792	882	795	882

### African Operations

#### Hassaï (40%)

Attributable Production (ounces)	8,400	8,008	16,237	15,107
Tonnage milled (t) <sup>1</sup>	193,062	211,357	428,693	435,957
Grade milled (g Au/t)	4.5	4.3	3.9	3.9
Recovery rate (%)	75	68	75	68
Cash costs (US\$ per ounce)	703	658	749	694

#### ITY (45.9%)

Attributable Production (ounces)	2,893	4,184	5,111	8,950
Tonnage milled (t) <sup>1</sup>	66,288	65,439	122,782	164,571
Grade milled (g Au/t)	3.3	5.9	3.1	5.0
recovery rate (%)	90	73	90	73
Cash costs (US\$ per ounce)	646	552	600	538

<sup>1</sup> On a 100% basis



# La Mancha Resources Inc.

FORM 51-102F1

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE- AND SIX-MONTH FISCAL PERIODS ENDED JUNE 30, 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- and six-month periods period ended June 30, 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 August 5, 2011.

**The condensed interim consolidated financial statements as at June 30, 2011, and for the three- and six-month periods ended June 30, 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](http://www.sedar.com) and on the Company's website at [www.lamancha.ca](http://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- and six-month periods ending June 30, 2011 and 2010, prepared on the basis described above.

## **SECOND QUARTER HIGHLIGHTS**

- Net earnings up 40% to \$11.3 million
- Cash and short-term investments grow 259% to reach \$70.7 million
- Strong production of 34,632 ounces of gold at an average cash cost of US \$657 per oz
- Cash flow from operating activities of \$14.6 million
- Total revenues of \$46.0 million
- Release of a positive feasibility study for the CIL plant upgrade at the Hassai mine

La Mancha Resources Inc. (TSX: LMA, FSE: LMA, hereinafter "La Mancha" or the "Company") is pleased to report that its consolidated production remains in line with its 2011 guidance of 115,000 to 135,000 attributable ounces of gold, as its output during the first half of the year totalled 67,058 ounces at a cash cost of US \$637 per ounce.

La Mancha produced 34,632 ounces of gold at an average cash cost of US \$657 per ounce during the second quarter of 2011, compared to 42,857 ounces of gold at an average cash cost of US \$581 per ounce in the same quarter last year. While Hassai's gold production increased slightly, the Company's consolidated production decreased, mainly due to quarterly fluctuations in the toll-milling schedule at its Australian mining complex, and to a lesser degree to the suspension of production at the Ity mine. Consolidated cash costs increased mainly due to the depreciation of the U.S. dollar against the Australian currency and the euro.

La Mancha's second quarter consolidated net earnings reached a record \$11.3 million, marking a 40% increase over the corresponding quarter of 2010 as the Company profited from stronger gold prices. Due to the aforementioned changes in production and a discrepancy between the ounces sold and produced, La Mancha's revenues totalled \$46.0 million in the second quarter of 2011, compared to revenues of \$54.5 million in the corresponding quarter of 2010.

The Company's cash and short-term investment position increased by 259% since June 30, 2010, to reach \$70.0 million as of June 30, 2011, as the Company generated \$14.6 million in cash flow from operating activities during the second quarter of 2011. This compares to \$18.9 million in cash flow from operating activities generated in the corresponding quarter of 2010.

In addition to its cash and short-term investments, La Mancha's sources of funds available as of June 30, 2011, included \$7.3 million invested in Master Asset Vehicle II ("MAV 2") and an AREVA debt facility available for its full amount of AU \$22.0 million. The Company has been debt-free since June 30, 2010.

For the first half of 2011, La Mancha posted net earnings of \$18.8 million and generated \$41.2 million in cash flow from operating activities, while its attributable gold production totalled 67,058 ounces of gold. This compares to net earnings of \$11.7 million, cash flow from operating activities of \$28.7 million and gold production of 64,511 ounces during the same period of 2010.

## **AUSTRALIAN OPERATIONS**

Production at the Frog's Leg mine remains in line with the 2011 forecast, with the mine generating 15,376 ounces of gold net to La Mancha at an average cash cost of US \$565 per ounce (AU \$531 per ounce) in the second quarter of 2011, compared to 24,706 ounces at an average cash cost of US \$488 per ounce (AU \$551 per ounce) in the corresponding period of 2010. Gold production decreased over the comparative quarter due to quarterly changes in the toll-milling schedule, but this was partially offset by higher grades.

Increased mining efficiency has allowed the cash cost per ounce expressed in Australian dollars for Frog's Leg to decrease by 4% from the corresponding period of 2010; however, due to unfavourable foreign exchange rate variations, the cash cost expressed in US dollars per ounce increased by 16%. The paste backfilling that started in 2010 has resulted in improved mine stability and consequently reduced dilution during mining, which explains the higher gold grades obtained.

As expected, toll mill availability at the nearby Greenfields plant allowed 86,140 tonnes of stockpiled White Foil ore to be processed during the second quarter of 2011, yielding 7,963 ounces of gold at an average cash cost of US \$792 per ounce (AU \$746 per ounce). This compares to 89,678 tonnes of ore processed at the Three-Mile-Hill plant in the second quarter of 2010, which yielded 5,959 ounces of gold at a cash cost of US \$882/oz (AU \$997 per ounce).

Due to higher gold grades, the cash cost per ounce in Australian dollars for White Foil decreased by 25% from the corresponding period of 2010; however, the cash cost in US dollars per ounce decreased by 11% due to unfavourable foreign exchange rate variations.

La Mancha is still in negotiation with FMR Investments with respect to the extension and upgrading of its milling agreement. La Mancha's current milling agreement runs until April 2012.

## **AFRICAN OPERATIONS**

The Hassaï mine's gold production remains in line with the 2011 forecast, as output totalled 21,000 ounces of gold (8,400 ounces attributable to La Mancha) at an average cash cost of US \$703 per ounce for the second quarter of 2011. This compares to 20,021 ounces of gold (8,008 ounces attributable to La Mancha) produced in the second quarter of 2010 at a cash cost of US \$658 per ounce.

It is important to note that roughly half the increase in cash costs per ounce over the corresponding period of 2010 was due to increased royalty charges arising from higher gold prices, while the remainder was mainly due to unfavourable foreign exchange rate variations.

During the weekend of June 25, a fire partially damaged two electrowinning cells. As both cells were replaced and commissioned faster than anticipated, the incident is expected to have a minimal impact on the third quarter's production.

After a 10-week shut down, the Ity mine resumed operations on May 9 with a rapid ramp up in production. Despite operating for only eight weeks, the mine produced a total of 6,302 ounces of gold (2,893 ounces attributable to La Mancha) at an average cash cost of US \$646 per ounce during the second quarter of 2011, compared to 9,115 ounces of gold the previous year (4,184 ounces attributable to La Mancha) at an average cash cost of US \$552 per ounce.

The mine has now reached its expected mill run rate, and management expects third quarter gold production to reflect this good performance as the leaching process catches up with the tonnage milled. The Ity mine is forecast to produce 32,700 to 37,000 ounces of gold in 2011 (15,000 to 17,000 ounces attributable to La Mancha), in line with its 2010 production level.

## VMS PROJECT

On May 16, 2011, La Mancha announced positive results on the feasibility study for the first stage of developing the Hassai mine into the Volcanogenic Massive Sulphide (“VMS”) project. The initial development stage is the upgrade of the present heap leach plant to Carbon-In-Leach (“CIL”) technology.

Despite the strong economics of the project, the Company highlighted when disclosing the results of the feasibility study that its development would be conditional to two elements, namely a) the conclusion of successful ownership discussions with its partners and b) the completion of full project financing. Although the Company views the recent transition in Sudan that saw the birth of South Sudan confirmed on July 9, 2011, positively, this political evolution did not facilitate the holding of conclusive discussions on ownership. As these discussions are only set to resume in September, the start of project development will most likely be delayed into early 2012. This would still allow the commissioning of the plant in 2013.

The second stage of development of the Hassai mine involves the mining of the volcanogenic massive sulphide (VMS) deposits underlying the mined-out pits. The Hassai 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 July 31, 2011, the campaign remained on schedule, with a total of 65,077 metres drilled. A total of seven drill rigs are currently in operation. A detailed update on the drilling program can be expected in the month of September.

## 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	Six months ended June 30, 2011 \$'000	Six months ended June 30, 2010 \$'000
Net sales	89,002	82,381
Net income		
In total	18,784	11,709
Per share - basic <sup>1</sup>	0.132	0.082
Per share - fully diluted <sup>1</sup>	0.131	0.082
	As at June 30, 2011 \$'000	As at December 31, 2010 \$'000
Total assets	205,588	177,566
Total long-term financial liabilities	14,853	13,426
Cash dividends declared	none	none

Note 1 – Per share amounts are in 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		Six months ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Hassaï</b>	Tonnage milled ('000 tonnes) <sup>1</sup>	193	211	429	436
	Grade milled (g Au/t)	4.5	4.3	3.9	3.9
	Attributable gold production (oz)	8,400	8,008	16,237	15,107
	Cash costs (US\$ per ounce) <sup>2</sup>	703	658	749	694
<b>Ity</b>	Tonnage milled ('000 tonnes) <sup>1</sup>	66	65	123	165
	Grade milled (g Au/t)	3.3	5.9	3.1	5.0
	Attributable gold production (oz)	2,893	4,184	5,111	8,950
	Cash costs (US\$ per ounce)	646	552	600	538
<b>Frog's Leg</b>	Tonnage milled ('000 tonnes) <sup>3</sup>	71	153	167	208
	Grade milled (g Au/t)	7.2	5.4	7.5	5.5
	Attributable gold production (oz)	15,376	24,706	37,667	34,495
	Cash costs (US\$ per ounce)	565	488	560	511
<b>White Foil</b>	Tonnage milled ('000 tonnes) <sup>4</sup>	86	90	88	90
	Grade milled (g Au/t)	3.1	2.2	3.1	2.2
	Attributable gold production (oz)	7,963	5,959	8,043	5,959
	Cash costs (US\$ per ounce)	792	882	795	882
<b>Total</b>	Attributable gold production (oz)	34,632	42,857	67,058	64,511
	Cash costs (US\$ per ounce)	657	581	637	592

1: Figure corresponds to the 100% of tonnage milled.

2: 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.

3: Figure corresponds to La Mancha's share (51%).

4: Figure corresponds to La Mancha's share (100%).

A fire occurred late June in Hassaï gold mill, but had limited impact on production.

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, production was impacted for a period of 12 weeks since the beginning of the year, 5 of which during the second quarter.

## Revenues

The following table sets out sales by entity:

Quantities (oz)	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Hassai (40%)	9,438	8,242	16,771	15,583
Ity (45.9%)	1,944	4,288	4,509	9,224
Frog's Leg (51%)	11,791	26,128	32,730	37,652
White Foil	7,963	5,959	8,043	5,959
<b>TOTAL SALES (oz)</b>	<b>31,137</b>	<b>44,617</b>	<b>62,053</b>	<b>68,418</b>
<b>Total revenues (\$'000)</b>	<b>45,980</b>	<b>54,541</b>	<b>89,002</b>	<b>82,381</b>

Revenues for the second quarter of 2011 were \$46.0 million, down 15.7% from \$54.5 million for the same period last year. This variance resulted from three factors: 1) a decrease in volume of gold sold due to exceptionally high production availability last year at the Frog's Leg mine, 2) no production occurred this year in April at the Ity mine, partly compensated by 3) a 21% rise in the average gold price.

During the second quarter of 2011, a total of 9,438 ounces of gold from the Hassaï mine (La Mancha's share) were sold at an average price of US \$1,500 (€1,046) per ounce, compared with 8,242 ounces of gold sold at an average price of US \$1,203 (€947) per ounce in the same period of 2010.

During the second quarter of 2011, 1,944 ounces of gold from the Ity mine (La Mancha's share) were sold at an average price of US \$1,524 (€1,053) per ounce, compared to 4,288 ounces of gold sold at an average price of US \$1,204 (€957) in the same period last year. The volume sold was 55% lower than in the second quarter of 2010 due to the interruption of mine activities from February 24 to May 9, 2011.

During the second quarter of 2011, 11,791 ounces of gold from the Frog's Leg mine (La Mancha's share) were sold at an average price of US \$1,429 (AU \$1,429) per ounce, compared with 26,128 ounces of gold sold at an average price of US \$1,188 (AUD 1,320) per ounce in the same period of 2010. The decrease in volume sold resulted from a decrease in gold production caused by limited milling availability during the quarter compared to last year. It was partially compensated by a higher grade at 7.2 g/t vs. 5.4 g/t on Q2 2010.

During the second quarter of 2011, 7,963 ounces of gold from the White foil mine were sold at an average price of US \$1,464 (AU \$1,409) per ounce, compared with 5,959 ounces of gold sold at an average price of US \$921 (AUD 1,346) per ounce in the same period of 2010. This improvement in gold sold is mainly due to a higher grade milled (3.1 g/t in the second quarter of 2011 versus 2.2 g/t in the corresponding period of 2010).

As of June 30, 2011, the Company had extended its short-term hedging program until the first quarter of 2012. This zero-cost hedging program is designed to secure significant cash flow from approximately 25% of the Company's 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:

	Q3-2011			Q4-2011			Q1-2012		
	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	5,184	AU\$1,251 /oz	AU\$1,733 /oz	4,803	AU\$1,223 /oz	AU\$1,733 /oz	4,380	AU\$1,223 /oz	AU\$1,733 /oz
African production	3,709	€844/oz	€1,248/oz	3,396	€846/oz	€1,281/oz	3,120	€876/oz	€1,295/oz
Total hedged	8,893			8,199			7,500		

No option was exercised during the second quarter 2011, as gold prices remained inside the options collar during the second quarter.

Average realized gold prices were as follow:

Gold price per ounce	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Average market gold price for the period	US \$1,504 €1,038 AU \$1,399	US \$1,196 €940 AU \$1,355	US \$1,444 €1,023 AU \$1,382	US \$1,152 €874 AU \$1,296
Average gold price realized by La Mancha for the period	US \$1,486 €1,061 AU \$1,421	US \$1,196 €950 AU \$1,325	US \$1,438 €1,043 AU \$1,401	US \$1,164 €879 AU \$1,298

## Cost of Sales

The cost of sales for the second quarter of 2011 was \$25.2 million, down 27.0% from \$34.5 million for the same period in 2010, in line with the 30.2% decrease in gold production observed over the same period. This leads to a gross margin at 45.2% of revenues compared to 36.7% the previous year. The increase in gross margin percentage reflects the strong rise in gold price partially offset by an increase in the average unit cash cost partially due to an adverse evolution of the AUD rate vs. USD.

The average unit cash cost increased at US \$657 for the second quarter of 2011, up 76USD, 13.1% from US \$581 for the same period in 2010. The changes in unit cash cost arose primarily from the following factors:

- The decrease in AUD of the unit cash cost at Frog's leg thanks to the higher grade was more than offset by unfavourable fluctuations in currency exchange rates due to a 20% appreciation in the Australian dollar against the US dollar (impact on the total unit cash cost of +67USD);
- At the Hassai mine, the cash costs per ounce increase over the corresponding period of 2010 is partially due to increased royalty charges arising from higher gold prices, and to a 12% devaluation of USD vs Euro between Q2 2010 and Q2 2011;
- At the Ity mine, the lower grade (3.3 g/t in Q2 2011 vs. 5.9 g/t in Q2 2010) contributed to the increase in the cash cost per ounce compared to last year.

### **Exploration and Evaluation Expenses**

During the second quarter of 2011, the Company incurred total exploration and evaluation expenses of \$1.9 million compared to \$2.0 million in 2010. These expenses were mainly related to:

- Ongoing exploration work in Australia;
- Analysis of the drilling campaign at the La Ortiguita project in Argentina;
- Exploration costs in Ivory Coast.

Exploration costs at the VMS project in Sudan were capitalized as of June 30, 2011, in accordance with Company policy and are consequently not included in this aggregate.

### **General and Administrative Expenses**

General and administrative expenses for the second quarter were \$3.1 million in 2011, at the same level of the previous year.

### **Other Operating Income / Expense**

During the second quarter of 2011, other operating expenses amounted to \$0.34 million compared to \$1.50 million in 2010. This amount mainly relates to operating costs of \$0.28 million for the maintenance and ongoing dewatering costs at the White Foil mine in Australia before the start of the next mining operation.

### **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 \$0.04 million during the second quarter of 2011, compared to \$0.12 million the previous year. This amount is directly linked to joint venture expenditures.

### **Finance Income / Expense**

The Company recorded a net finance income of \$0.26 million for the second quarter of 2011 compared to a net finance expense of \$0.10 million the previous year. This item consists of a \$0.23 million interest expense mainly related to the Australian leases, net of \$0.49 million in interest income on cash deposits.

### Gain (Loss) on Investments

As at June 30, 2011, the Company held a total of \$11.0 million as face value in long-term notes issued by Master Asset Vehicle II. For the second quarter, the Group recorded a \$0.1 million increase in fair value (2010: \$nil). As at June 30, 2011, the fair value of the Group's Asset-Backed Term-Notes was estimated at \$7.33 million.

### 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 5 to the condensed interim consolidated financial statements describes uncertainty with respect to the long-term notes held by the Company.

Note 10 to the condensed interim consolidated 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 <sup>1</sup>	Net sales (\$'000)	Net income/(loss) (\$'000)	Net income/(loss) per share <sup>2</sup>	Net income per share, fully diluted
June 30, 2011	45,980	11,280	0.079	0.079
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

Note 1 – Except for the year 2009, the figures are presented under IFRS. 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 cash flow of \$14.6 million during the second quarter of 2011, down from \$18.9 million in the corresponding period in 2010. This decrease is mainly coming from the change in Working capital, which accounted for a negative \$3.0 million year-over-year position due to temporary unfavourable changes in Australian inventories.

Investing activities used \$15.2 million in cash flow in the second quarter of 2011 compared to \$3.7 million in the same period of 2010. For the second quarter of 2011, the Group has invested \$5.6 million in Capital Expenditures (2010: \$7.4 million), of which \$3.4 million in Australia for the ongoing development of Frog's leg mining project, and an amount of \$9.6 million representing cash surpluses was invested temporarily in short-term investment.

Financing activities generated cash flow of \$0.1 million during the second quarter of 2011, and had used \$14.3 million in the same period of 2010. In 2010, an amount of \$13.9 million was repaid on the medium-term line of credit from the majority shareholder, corresponding to the full reimbursement of this financial debt.

## **LIQUIDITY**

As at June 30, 2011, the Company's balance sheet showed current assets of \$110.0 million, up \$26.1 million from year-end. This variation is mainly explained by a strong increase of \$32.3 million in cash and cash equivalents and short-term investments, partially offset by the \$5.3 million decrease in inventories.

## **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 June 30, 2011.

As at June 30, 2011, no new long term lease obligations were contracted by the Group for the Frog's leg mining project. The finance lease obligations totals \$2.6 million at the end of the quarter (2010: \$3.1 million).

## **STATUS AND OUTLOOK OF MINING OPERATIONS**

Due to the improved political situation in Ivory Coast, operating activities at Ity mine successfully resumed on May 9, 2011.

The precautionary measures taken at Ity to safeguard the plant and the mining assets have been effective as the production equipment remained fully operational. In the same time, non-production assets have been deteriorated for an amount of \$0.15 million.

Despite the recent production interruptions at the Ity mine, total Group 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 details of the Group's transition to IFRS are described in the condensed interim consolidated financial statements published for the first quarter ended March 31<sup>st</sup> 2011 in note 2 and note 5.

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.

As of reporting date, no change was done to the analysis conducted on the first implementation of the IFRS standards. The Group has not yet assessed the impact of new accounting standard not yet adopted (see note 3 in the condensed interim consolidated financial statements).

## OTHER REQUIRED DISCLOSURE

### *Outstanding Share Data*

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

<b>Common shares</b> June 30, 2011 August 5, 2011	<b>Number of shares</b>  142,705,850 142,705,850						
<b>Stock options</b> June 30, 2011 August 5, 2011	<table><thead><tr><th><b>Number of options</b></th><th>Number of common shares if all options are exercised</th></tr></thead><tbody><tr><td>580,000</td><td></td></tr><tr><td>580,000</td><td>580,000</td></tr></tbody></table>	<b>Number of options</b>	Number of common shares if all options are exercised	580,000		580,000	580,000
<b>Number of options</b>	Number of common shares if all options are exercised						
580,000							
580,000	580,000						

### *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](http://www.sedar.com).



Paris  
August 5, 2011





## **La Mancha Resources Inc.**

### Condensed Interim Consolidated Financial Statements

As at June 30, 2011 and 2010

and for the Three- and Six-Month Periods Ended

June 30, 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 June 30 2011	As at December 31 2010
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		52,533	32,899
Short-term investments		18,175	5,485
Trade and other receivables		14,432	14,181
Income taxes recoverable		–	–
Inventories	4	24,015	29,359
Other current assets		663	803
Derivative financial instruments	8	166	611
<b>Total current assets</b>		<b>109,984</b>	<b>83,338</b>
<b>Non-current assets</b>			
Property, plant and equipment		77,934	78,633
Intangible assets		5,953	3,686
Restricted cash		2,079	2,046
Deferred income tax asset		2,005	2,122
Investments and other assets	5	7,633	7,741
<b>Total non-current assets</b>		<b>95,604</b>	<b>94,228</b>
<b>Total assets</b>		<b>205,588</b>	<b>177,566</b>

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 June 30	As at December 31
	Note	2011	2010
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness		663	–
Accounts payable and accrued liabilities		16,464	17,553
Income taxes payable		8,432	4,162
Current portion of finance lease obligations		1,426	2,244
Derivative financial instruments	8	104	511
Provisions		389	302
Pension and other post-service benefit obligations		855	916
<b>Total current liabilities</b>		<b>28,333</b>	<b>25,688</b>
<b>Non-current liabilities</b>			
Deferred income tax liability		4,737	3,363
Finance lease obligations		1,133	1,534
Provisions		6,883	6,673
Pension and other post-service benefit obligations		2,100	1,876
<b>Total non-current liabilities</b>		<b>14,853</b>	<b>13,446</b>
<b>Total Liabilities</b>		<b>43,186</b>	<b>39,134</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common stock		42,096	42,026
Stock Options	7	146	184
Contributed surplus		44,222	44,160
Accumulated other comprehensive income		3,595	(1,497)
Retained earnings		72,343	53,559
<b>Total shareholders' equity</b>		<b>162,402</b>	<b>138,432</b>
<b>Total liabilities and shareholders' equity</b>		<b>205,588</b>	<b>177,566</b>

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- and Six-Month Periods Ended June 30, 2011 and 2010

Amounts in thousands of Canadian dollars except per share amounts

(unaudited)

	Three-month period		Six-month period	
	2011	2010	2011	2010
<b>Revenue</b>	45,980	54,541	89,002	82,381
Cost of sales	(25,207)	(34,531)	(52,609)	(51,893)
<b>Gross margin</b>	20,773	20,010	36,393	30,488
<b>Operating expenses</b>				
Exploration and evaluation expenses	(1,911)	(1,987)	(3,437)	(3,427)
General and administrative expenses	(3,078)	(3,080)	(5,793)	(6,008)
Other operating expenses	(335)	(1,495)	(957)	(1,774)
Joint venture management fee recoveries	35	116	181	187
<b>Total operating expenses</b>	(5,289)	(6,446)	(10,006)	(11,022)
<b>Mine operating earnings</b>	<b>15,484</b>	<b>13,564</b>	<b>26,387</b>	<b>19,466</b>
<b>Other income (expenses)</b>				
Finance income	495	167	808	356
Finance costs	(238)	(262)	(341)	(577)
Gain on investments (note 5)	121	373	181	379
Foreign exchange loss	(393)	(33)	(362)	(29)
Other expenses	51	(929)	1	(970)
	36	(684)	287	(841)
<b>Earnings before income tax expense</b>	<b>15,520</b>	<b>12,880</b>	<b>26,674</b>	<b>18,625</b>
Income tax expense	(4,240)	(4,834)	(7,890)	(6,916)
<b>Net earnings for the period</b>	<b>11,280</b>	<b>8,046</b>	<b>18,784</b>	<b>11,709</b>
Earning per share (note 6)				
Basic	0.079	0.057	0.132	0.082
Diluted	0.079	0.056	0.131	0.082

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

## Condensed Interim Consolidated Statement of Comprehensive Income

For the Three- and Six-Month Periods Ended June 30, 2011 and 2010

*Amounts in thousands of Canadian dollars unless otherwise stated*

*(unaudited)*

	Three-month period Ended June 30		Six-month period Ended June 30	
	2011	2010	2011	2010
Net earnings for the period	11,280	8,046	18,784	11,709
<b>Other comprehensive income</b>				
• Change in cumulative translation adjustments	3,786	(4,744)	5,180	(10,290)
• Change in unrealized gains and losses on available-for-sale investments, net of income taxes of \$37 (2010: \$(47))	(67)	44	(88)	109
• Amount reclassified to consolidated statement of earnings net of income taxes of \$nil (2010: \$52).	–	(245)	–	(122)
<b>Other comprehensive income (loss) for the period</b>	<b>3,719</b>	<b>(4,945)</b>	<b>5,092</b>	<b>(10,303)</b>
<b>Comprehensive income for the period</b>	<b>14,999</b>	<b>3,101</b>	<b>23,876</b>	<b>1,406</b>

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	Contributed Surplus	Retained Earnings	Cumulated translation adjustment	Accumulated other comprehensive income Assets available for sale	Total
<b>Balance on January 1, 2010</b>	<b>142,184,350</b>	<b>41,541</b>	<b>156</b>	<b>44,139</b>	<b>29,821</b>	<b>–</b>	<b>175</b>	<b>115,832</b>
Net earnings for the Six-month period ended June 30, 2010					11,709			11,709
Other comprehensive income (loss)						(10,290)	(13)	(10,303)
Exercise of options	190,000	113	(26)					87
Stock-based compensation			86					86
<b>Balance on June 30, 2010</b>	<b>142,374,350</b>	<b>41,654</b>	<b>216</b>	<b>44,139</b>	<b>41,530</b>	<b>(10,290)</b>	<b>162</b>	<b>117,411</b>
<b>Balance on January 1, 2011</b>	<b>142,660,850</b>	<b>42,026</b>	<b>184</b>	<b>44,160</b>	<b>53,559</b>	<b>(1,603)</b>	<b>106</b>	<b>138,432</b>
Net earnings for the Six-month period ended June 30, 2011					18,784			18,784
Other comprehensive income						5,180	(88)	5,092
Exercise of options	45,000	70	(2)					68
Forfeiture of options			(62)	62				–
Stock-based compensation			26					26
<b>Balance on June 30, 2011</b>	<b>142,705,850</b>	<b>42,096</b>	<b>146</b>	<b>44,222</b>	<b>72,343</b>	<b>3,577</b>	<b>18</b>	<b>162,402</b>

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 Six-Month Period Ended June 30, 2011 and 2010

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

	Three-month period ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
<b>Cash flows from operating activities</b>				
<b>Net earnings for the period</b>	11,280	8,046	18,784	11,709
Adjusted for non cash items				
Depreciation and amortization	5,177	7,020	11,186	10,940
Loss (gain) on disposal of properties	102	(5)	129	(9)
Derivative Financial Instruments (note 8)	3	1,611	26	1,598
Net movements in provisions	158	236	252	350
Foreign exchange loss	393	33	362	29
Gain on investments (note 5)	(121)	(373)	(181)	(379)
Stock based compensation expense	14	52	26	86
Finance costs	238	262	341	577
Finance income	(495)	(167)	(808)	(356)
Income tax expense	4,240	4,834	7,890	6,916
<b>Changes in working capital:</b>				
Inventories	1,424	3,141	6,258	2,216
Accounts receivable	(5,032)	(5,250)	232	(5,078)
Prepaid expenses, deposits and other assets	278	330	172	274
Accounts payable and accrued liabilities	(735)	890	(1,576)	2,777
<b>Cash generated from operations</b>	<b>16,924</b>	<b>20,660</b>	<b>43,093</b>	<b>31,650</b>
Interest paid	(239)	(367)	(342)	(530)
Interest received	431	167	788	405
Income tax received (paid)	(2,507)	(1,534)	(2,389)	(2,881)
<b>Net cash generated from operating activities</b>	<b>14,609</b>	<b>18,926</b>	<b>41,150</b>	<b>28,644</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	(1,152)	(2,865)	(2,474)	(6,140)
Acquisition of intangible assets	(67)	–	(67)	–
Exploration and evaluation costs capitalized	(941)	(88)	(2,153)	(177)
Mine development costs capitalized	(3,410)	(3,909)	(6,172)	(7,092)
Proceeds from sale of equipment	4	9	139	18
Short-term investments	(9,623)	3,727	(12,319)	3,759
Net change in restricted cash	–	(572)	–	(572)
<b>Net cash used in investing activities</b>	<b>(15,189)</b>	<b>(3,698)</b>	<b>(23,046)</b>	<b>(10,204)</b>
<b>Cash flows from financing activities</b>				
Repayment of borrowings	–	(13,932)	–	(15,625)
Repayment of finance lease obligations	(593)	(525)	(1,248)	(1,060)
Net change in bank indebtedness	614	80	661	107
Proceeds for issuance of share stock	70	87	70	87
<b>Net cash used in financing activities</b>	<b>91</b>	<b>(14,290)</b>	<b>(517)</b>	<b>(16,491)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(489)</b>	<b>938</b>	<b>17,587</b>	<b>1,949</b>
Cash and cash equivalents at beginning of the period	51,557	13,648	32,899	13,087
Effect of exchange rates change on cash and cash equivalents	1,465	(621)	2,047	(1,071)
<b>Cash and cash equivalents at end of the period</b>	<b>52,533</b>	<b>13,965</b>	<b>52,533</b>	<b>13,965</b>

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

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 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, Ivory Coast 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. INTERIM FINANCIAL INFORMATION

The Condensed financial information presented as at June 30, 2011 and for the three- and six-month periods ended June 30, 2011 and 2010 is unaudited. However, in the opinion of management, all adjustments necessary to fairly present the results of these periods have been included. The adjustments which have been made are of a normal recurring nature.

The Group's accounting policies presented in Note 2, Basis of Preparation and Significant Accounting Policies of the condensed interim consolidated financial statements for the first quarter of 2011 have been applied in preparing the condensed interim consolidated financial statements for the three and six months ended June 30, 2011, the comparative information for the three and six months ended June 30, 2010 and the year ended December 31, 2010.

For the effects of the changeover to IFRS on equity on January 1, 2010 and December 31, 2010, and total comprehensive income for the year ended December 31, 2010, please refer to the condensed interim consolidated financial statements for the first quarter of 2011. Prior to January 1, 2010, the Group's consolidated financial statements were prepared in accordance with previous Canadian GAAP.

Note 11 discloses the impact of the transition to IFRS on the Company's reported 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 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.

### 3. CHANGES IN ACCOUNTING POLICIES

#### IMPACT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED

##### International Financial Reporting Standards

The IASB issued the following Standards which are relevant but have not yet been adopted by the Group: IFRS 9, Financial Instruments, IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IFRS 13, Fair Value Measurements, amended IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures, IAS 1 Presentation of Financial Statements, IAS 12 Income Taxes and IAS 19 Employee Benefits. The Group has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2011 and 2010

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

### 3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

#### IMPACT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED (CONTINUED)

##### International Financial Reporting Standards (continued)

The following is a brief summary of the new 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.

c) International Financial Reporting Standard 11, Joint Arrangements ("IFRS 11") & related Standards

On May 12, 2011, the IASB issued IFRS 11 Joint Arrangements which supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. Concurrent with the issuance of IFRS 11, the IASB also issued:

- IFRS 10, Consolidated Financial Statements; which replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.
- IFRS 12, Disclosure of Involvement with Other Entities;
- IAS 27, Separate Financial Statements (revised 2011), has been amended for the issuance of IFRS 10 for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements but retains the current guidance for separate financial statements; and

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2011 and 2010

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

### 3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

#### IMPACT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED (CONTINUED)

##### International Financial Reporting Standards (continued)

- IAS 28, Investments in Associates and Joint Ventures (revised 2011), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of the standards has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards are also early applied. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12.

Joint control: IFRS 11 defines a joint arrangement as an "arrangement of which two or more parties have joint control" and makes clear that joint control exists only when "decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively."

Joint operations and joint ventures: The new Standard establishes two types of joint arrangements: joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. In a joint operation, the parties to the joint arrangement (referred to as "joint operators") have rights to the assets and obligations for the liabilities of the arrangement. By contrast, in a joint venture, the parties to the arrangement (referred to as "joint venturers") have rights to the net assets of the arrangement.

IFRS 11 requires that a joint operator recognize its share of the assets, liabilities, revenues and expenses in accordance with applicable IFRSs while a joint venturer would account for its interest using the equity method of accounting under IAS 28 (revised 2011), Investments in Associates and Joint Ventures.

Distinction between joint operations and joint ventures: The existence of a separate vehicle is a necessary, but not sufficient, condition for a joint arrangement to be considered a joint venture.

In the absence of a separate vehicle, IFRS 11 makes it clear that the parties to the joint arrangement have direct rights and obligations to the assets and liabilities of the arrangement and hence the arrangement will be classified as a joint operation. In an arrangement with a separate vehicle, that may or may not be the case, all relevant facts and circumstances should be considered in determining whether the parties to the arrangement have rights to the net assets of the arrangement.

Separate financial statements: Joint operations are accounted for in the same manner in the separate financial statements as in the consolidated financial statements (i.e., the investor recognizes directly its shares of assets, liabilities, revenues and expenses related to the joint operations).

Joint ventures, like investments in associates and in subsidiaries, are accounted for in the separate financial statements of the venturer either at cost or under IFRS 9 (or IAS 39, as applicable) as permitted by IAS 27.

Disclosures: The disclosure requirements for entities involved with joint arrangements are established in IFRS 12. This Standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

Effective date and transition: IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with early application permitted (so long as IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are adopted at the same time). When adoption of IFRS 11 requires a change in accounting, the impact of the change is calculated as at the beginning of the earliest period presented and the comparative periods are restated.

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2011 and 2010

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

### 3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

#### IMPACT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED (CONTINUED)

##### International Financial Reporting Standards (continued)

d) International Financial Reporting Standard 13, Fair Value Measurements ("IFRS 13")

On 12 May 2011, the IASB issued IFRS 13 Fair Value Measurements, which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

e) Employee Benefits ("IAS 19")

In June 2011, the IASB amended IAS 19 – Employee Benefits, eliminating the corridor approach to recognizing changes in actuarial gains and losses. Entities will also need to segregate changes in the defined benefit obligation and in the fair value of plan assets into three components: service costs, net interest on the net defined benefit liabilities (assets) and remeasurements of the net defined benefit liabilities (assets). The amendments also enhance disclosure about the risks arising from defined benefit plans. The amendments to IAS 19 must be applied retrospectively (with certain exceptions) for annual periods beginning on or after January 1, 2013, with early adoption permitted.

f) Presentation of Financial Statements ("IAS 1")

In June 2011, the IASB amended IAS 1 – Presentation of Financial Statements, providing guidance on items contained in other comprehensive income (OCI) and their classification within OCI. The amendments to IAS 1 must be applied retrospectively for annual periods beginning on or after July 1, 2012.

The adoption of these new IFRS standards and amendments is not expected to have a significant impact on the Group's financial statements.

### 4. INVENTORIES

	As at June 30	As at December 31
	2011	2010
Raw materials and consumable stores	5,304	5,619
Work in progress, including stockpiles	17,027	23,141
Finished goods	1,684	599
	<b>24,015</b>	<b>29,359</b>

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2011 and 2010

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

### 5. INVESTMENTS AND OTHER ASSETS

	As at June 30	As at December 31
	2011	2010
Investments in Australian listed equity securities (see (a))	226	348
Investment in Asset Backed Term-Notes (see (b))	7,330	7,149
Deposits and prepaid expenses	77	244
	<b>7,633</b>	<b>7,741</b>

#### (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 June 30	As at December 31
	2011	2010
Aggregate unrealized gains	76	200
Aggregate unrealized losses	(51)	(49)
Deferred income taxes	(7)	(45)
	<b>18</b>	<b>106</b>

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

As at June 30, 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%.

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. On June 1<sup>st</sup>, 2011, DBRS upgraded to "A" the rating of the Class A-2 Notes. The rating of the Class A-1 Notes remains at "A" (high) until further notice.

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 June 30, 2011. The Class A-1, A-2, B and C Notes legally mature in 2056. However, the expected maturity date is in 2017.

As at June 30, 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 June 30, 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 June 30, 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- and six-month periods ending June 30, 2011, no impact was recorded in the condensed interim statement of earnings following this liquidation.

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2011 and 2010

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### 5. INVESTMENTS AND OTHER ASSETS (CONTINUED)

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

Based on the discounted cash flow model as at June 30, 2011, the fair value of the Company's Notes was estimated at \$7,330 (2010: \$7,149). For the three- and six-month periods ended June 30 2011, the change in value recorded was due to a fair value adjustment recovery of \$121 and \$181 (2010: \$103 and \$103) respectively, due to improvements on the liquidity risks on the MAV Notes A-2 and B. This improvement on liquidity risks compensates an increase of the 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 June 30, 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 \$474 (2010:\$369).

### 6. EARNINGS PER SHARE

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

	Three-month period ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
<b>Basic:</b>				
Net earnings for the period	\$11,280	\$8,046	\$18,784	\$11,709
Basic weighted average number of common shares outstanding	142,695,465	142,237,427	142,678,253	142,211,035
Earning per share - basic	\$0.079	\$0.057	\$0.132	\$0.082
<b>Diluted:</b>				
Net earnings for the period	\$11,280	\$8,046	\$18,784	\$11,709
Basic weighted average number of common shares outstanding	142,695,465	142,237,427	142,678,253	142,211,035
Dilutive effect of stock options	267,439	300,641	207,799	166,601
Diluted weighted average number of common shares outstanding	142,962,904	142,538,068	142,886,052	142,377,636
Earning per share - diluted	\$0.079	\$0.056	\$0.131	\$0.082

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2011 and 2010

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### 7. 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.

	<b>Six-month period ended June 30, 2011</b>		
	<b>Number</b>	<b>Carrying value</b>	<b>Weighted average exercise price \$ per share</b>
Beginning of period	945,000	184	0.84
Granted	30,000	–	2.23
Forfeited	(350,000)	(62)	(0.73)
Exercised	(45,000)	(2)	(1.50)
Stock based compensation	–	26	–
End of the period	580,000	146	0.93

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.

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

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

### 7. SHARE-BASED PAYMENTS (CONTINUED)

#### Options (continued)

As at June 30, 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	3.1	\$0.30	\$0.10	—	—
\$0.46	220,000	2.8	\$0.46	\$0.15	220,000	\$0.46
\$0.66	120,000	3.9	\$0.66	\$0.25	60,000	\$0.66
\$0.86	80,000	1.9	\$0.86	\$0.46	80,000	\$0.86
\$1.64	40,000	4.5	\$1.64	\$0.67	—	—
\$1.98	50,000	3.8	\$1.98	\$0.81	—	—
\$2.23 to \$2.50	50,000	4.3	\$2.34	\$0.85	—	—
	580,000	3.2	\$0.93	\$0.37	360,000	\$0.58

### 8. RISK MANAGEMENT

#### Hedges

As at June 30, 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:	10,225	€855/oz	€1,273/oz	July 2011	April 2012
Australian operations:	14,367	AU\$1,242/oz	AU\$1,742/oz	July 2011	April 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- and six-month periods ending June 30, 2011, two options were exercised generating a loss of \$137 (2010: \$(77)) recorded in other operating expenses in the condensed interim consolidated statement of earnings.

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2011 and 2010

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### 8. 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 June 30 2011	As at December 31 2010		
<b>Derivatives hedging instruments:</b>				
Gold call options sold	166	611		
Gold put options bought	(104)	(511)		
Total	62	100		
<b>Classification of derivative hedging instruments:</b>				
	As at June 30 2010	As at December 31 2010		
<b>Assets</b>				
Current assets portion	166	611		
Long-term assets portion	–	–		
Total assets	166	611		
<b>Liabilities</b>				
Current liabilities portion	(104)	(511)		
Long-term liabilities portion	–	–		
Total liabilities	(104)	(511)		
Total net	62	100		
	For the three-month period ended June 30 2011	2010	For the six-month period ended June 30 2011	2010
<b>Changes in fair value of hedging instruments</b>				
• Changes in time value of hedging instruments recorded in the consolidated statement of operations	(4)	(836)	46	(823)
• Changes in intrinsic value of hedging instruments recorded in the consolidated statement of operations	–	(775)	(72)	(775)
Total at the end of the period	(4)	(1,611)	(26)	(1,598)

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2011 and 2010

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(unaudited)*

### 9. 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.

# La Mancha Resources Inc.

## Notes to Interim Consolidated Financial Statements

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*Amounts in thousands of Canadian dollars unless otherwise stated*

*(unaudited)*

### 9. SEGMENTED INFORMATION (CONTINUED)

The tables below summarize the selected financial information by segment:

	<b>Three-month period ended June 30, 2011</b>					
	Ivory Coast	Sudan	Australia	Argentina	Other	Total
Revenue	2,872	13,752	28,843	–	1,171	46,638
Inter-segment revenue	–	–	–	–	(658)	(658)
Revenue from external sources	2,872	13,752	28,843	–	513	45,980
Mine operating earnings (loss)	473	6,453	10,331	(327)	(1,446)	15,484
Finance income	31	49	354	–	61	495
Finance expense	–	–	(233)	–	(5)	(238)
Income tax expense	(131)	(1,017)	(2,334)	–	(758)	(4,240)
Net earnings/(loss)	365	5,485	8,166	(327)	(2,409)	11,280
Depreciation and amortization	1,039	859	3,256	–	23	5,177
Capital expenditures	752	1,106	3,703	1	8	5,570
	<b>Six-month period ended June 30, 2011</b>					
Revenue	6,317	23,787	57,642	–	2,262	90,008
Inter-segment revenue	–	–	–	–	(1,006)	(1,006)
Revenue from external sources	6,317	23,787	57,642	–	1,256	89,002
Mine operating earnings (loss)	884	9,778	19,354	(871)	(2,758)	26,387
Finance income	55	72	586	5	90	808
Finance expense	–	–	(336)	–	(5)	(341)
Income tax expense	(359)	(1,517)	(5,086)	–	(928)	(7,890)
Net earnings/(loss)	572	8,333	14,519	(866)	(3,774)	18,784
Depreciation and amortization	1,666	1,792	7,680	–	48	11,186
Capital expenditures	879	3,074	6,923	(21)	11	10,866
	<b>As at June 30, 2011</b>					
	Ivory Coast	Sudan	Australia	Argentina	Other	Total
Property, Plant and equipment and intangible assets	12,304	17,613	52,439	366	1,165	83,887
Total assets	29,062	54,378	85,195	511	36,442	205,588
Total liabilities	(7,062)	(6,182)	(24,768)	(8)	(5,166)	(43,186)

# La Mancha Resources Inc.

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(unaudited)

### 9. SEGMENTED INFORMATION (CONTINUED)

	Three-month period ended June 30, 2010					
	Côte d'Ivoire	Sudan	Australia	Argentina	Other	Total
Revenue	5,366	10,207	38,594	–	758	54,925
Inter-segment revenue	–	–	–	–	(384)	(384)
Revenue from external sources	5,366	10,207	38,594	–	374	54,541
Mine operating earnings (loss)	2,265	2,515	11,919	(216)	(2,919)	13,564
Finance income	55	(3)	103	–	12	167
Finance expense	–	–	(262)	–	–	(262)
Income tax expense	(678)	(397)	(3,198)	–	(561)	(4,834)
Net earnings/(loss)	1,642	2,115	8,995	(216)	(4,490)	8,046
Depreciation and amortization	751	489	5,728	–	52	7,020
Capital expenditures	2,123	1,310	3,394	–	35	6,862
	Six-month period ended June 30, 2010					
Revenue	11,082	18,775	51,851	–	1,449	83,157
Inter-segment revenue	–	–	–	–	(776)	(776)
Revenue from external sources	11,082	18,775	51,851	–	673	82,381
Mine operating earnings (loss)	4,660	4,333	16,138	(532)	(5,133)	19,466
Finance income	149	6	186	–	15	356
Finance expense	–	–	(577)	–	–	(577)
Income tax expense	(1,270)	(697)	(4,338)	–	(611)	(6,916)
Net earnings/(loss)	3,539	3,642	11,807	(526)	(6,753)	11,709
Depreciation and amortization	1,283	1,303	8,282	–	72	10,940
Capital expenditures	3,887	2,056	7,374	10	82	13,409
	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)

### 10. 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. On May 5, 2011, the trustee in bankruptcy requested the closure of the bankruptcy proceedings due to the lack of assets. No decision has yet been rendered by the court on this request. 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.

# La Mancha Resources Inc.

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### 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### 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. On March 23, 2011, the court held an evidence hearing to determine the facts that are disputed and to attempt a settlement. Due to the absence of any possible settlement, the evidence period was opened. On July 1<sup>st</sup>, 2011, the accountant appointed by the court filed his expert report. On July 11, 2011, the Group filed the documentation requested.

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.

#### 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 June 30, 2011, the Group has completed its expenditure program for the years 2010-2011 with an accumulated amount of \$867 (US\$884) 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 3<sup>rd</sup>, 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 \$1,255 (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 June 30, 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 June 30, 2011, the future payments to be received are scheduled as follows:

	Cash payment	% of ownership transferred
September 3 <sup>rd</sup> , 2011	\$72 (US\$75)	—
September 3 <sup>rd</sup> , 2012	\$145 (US\$150)	60%
September 3 <sup>rd</sup> , 2013	\$241 (US\$250)	60%
September 3 <sup>rd</sup> , 2014	\$338 (US\$350)	60%
September 3 <sup>rd</sup> , 2015	\$410 (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 \$1,931 (US\$2,000).





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