

MANSFIELD MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mansfield Minerals Inc.

We have audited the accompanying consolidated financial statements of Mansfield Minerals Inc. which comprise the consolidated balance sheets as at May 31, 2011 and 2010 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Mansfield Minerals Inc. as at May 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

September 22, 2011



MANSFIELD MINERALS INC.
CONSOLIDATED BALANCE SHEETS
AS AT MAY 31

	2011	2010
ASSETS		
Current		
Cash and cash equivalents	\$ 6,962,136	\$ 6,255,222
Receivables	55,144	37,726
Prepaid expenses	<u>6,055</u>	<u>423</u>
	7,023,335	6,293,371
Equipment (Note 3)	131,875	133,186
Deferred exploration costs (Note 5)	<u>18,865,031</u>	<u>13,334,878</u>
	<u>\$ 26,020,241</u>	<u>\$ 19,761,435</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 328,431	\$ 211,485
Due to related parties (Note 7)	<u>111,659</u>	<u>42,105</u>
	440,090	253,590
Asset retirement obligation (Note 2)	<u>1,481,760</u>	<u>1,123,887</u>
	<u>1,921,850</u>	<u>1,377,477</u>
Shareholders' equity		
Capital stock (Note 6)	61,678,977	54,670,482
Treasury stock (Note 6)	(41,600)	(41,600)
Contributed surplus (Note 6)	11,095,237	10,893,555
Deficit	<u>(48,634,223)</u>	<u>(47,138,479)</u>
	<u>24,098,391</u>	<u>18,383,958</u>
	<u>\$ 26,020,241</u>	<u>\$ 19,761,435</u>

Nature and continuance of operations (Note 1)

Commitments (Note 12)

On behalf of the Board:

"Gordon P. Leask"

Director

"Megan Cameron-Jones"

Director

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

MANSFIELD MINERALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
YEARS ENDED MAY 31

	2011	2010
EXPENSES		
Accounting and audit	\$ 50,488	\$ 45,423
Accretion (Note 2)	43,319	28,661
Amortization	18,575	23,441
Bank charges and interest	7,489	4,948
Consulting fees	193,252	152,097
Consulting fees – stock-based compensation (Note 6)	172,026	21,433
Fees and taxes	(37,449)	172,311
Insurance	27,766	29,741
Investor relations and shareholder information	240,858	247,316
Legal	47,398	21,413
Management fees	240,000	240,000
Office and administration	45,920	40,869
Rent	49,104	47,987
Telephone	15,083	14,315
Transfer agent and listing fees	28,885	21,029
Travel and entertainment	61,500	28,213
Wages and benefits	<u>88,142</u>	<u>45,902</u>
Loss before other items	<u>(1,292,356)</u>	<u>(1,185,099)</u>
OTHER ITEMS		
Gain (loss) on foreign exchange	(256,045)	45,596
Interest income	51,924	7,686
Write-off of deferred exploration costs (Note 5)	(10,414)	(23,298)
Gain on disposal of equipment	11,147	13,224
Loss on disposal of long-term investment securities	<u> </u>	<u>(431,770)</u>
	<u>(203,388)</u>	<u>(388,562)</u>
Loss for the year	<u>(1,495,744)</u>	<u>(1,573,661)</u>
Fair value adjustment of long-term investment securities	<u> </u>	<u>1,242,706</u>
Comprehensive loss for the year	<u>\$ (1,495,744)</u>	<u>\$ (330,955)</u>
Basic and diluted loss per common share	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
Basic and diluted weighted average number of common shares outstanding	<u>48,616,521</u>	<u>44,205,317</u>

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

MANSFIELD MINERALS INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Number of Shares	Price	Amount	Accumulated Other Comprehensive Income	Contributed Surplus	Number of Shares	Treasury Stock	Deficit	Total
Balance, May 31, 2009	44,124,221	\$	\$ 50,066,348	\$ (1,242,706)	\$ 10,692,080	80,000	\$ (41,600)	\$ (45,564,818)	\$ 13,909,304
Shares issued for									
Private placement	3,450,000	1.50	4,966,381		208,619				5,175,000
Private placement expense			(425,324)						(425,324)
Exercise of stock options	150,000	0.23	63,077		(28,577)				34,500
Fair value adjustment of long-term investment securities				1,242,706					1,242,706
Stock-based compensation					21,433				21,433
Loss for the year								(1,573,661)	(1,573,661)
Balance, May 31, 2010	47,724,221		54,670,482		10,893,555	80,000	(41,600)	(47,138,479)	18,383,958
Shares issued for									
Private placement	1,000,000	2.30	2,300,000						2,300,000
Private placement	1,905,000	2.50	4,762,500						4,762,500
Finders' options	61,650	2.50	(145,241)		145,241				
Private placement expense			(293,239)						(293,239)
Exercise of compensation options	37,260	1.50	93,441		(37,551)				55,890
Exercise of options	185,000	1.15	291,034		(78,034)				213,000
Stock-based compensation					172,026				172,026
Loss for the year								(1,495,744)	(1,495,744)
Balance, May 31, 2011	50,913,131	\$	\$ 61,678,977	\$	\$ 11,095,237	80,000	\$ (41,600)	\$ (48,634,223)	\$ 24,098,391

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

MANSFIELD MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (1,495,744)	\$ (1,573,661)
Items not affecting cash:		
Amortization	18,575	23,441
Accretion	43,319	28,661
Write-off of deferred exploration costs	10,414	23,298
Loss on disposal of long-term investment securities		431,770
Gain on disposal of equipment	(11,147)	(13,224)
Consulting fees - stock-based compensation	172,026	21,433
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(17,418)	125,931
Decrease (increase) in prepaid expenses	(5,632)	39
Increase (decrease) in accounts payable and accrued liabilities	(34,840)	58,680
Increase (decrease) in due to related parties	<u>69,554</u>	<u>(3,889)</u>
Net cash used in operating activities	<u>(1,250,893)</u>	<u>(877,521)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash, net of issuance costs	<u>7,038,151</u>	<u>4,784,176</u>
Net cash provided by financing activities	<u>7,038,151</u>	<u>4,784,176</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	(25,234)	
Disposal of equipment	19,117	13,380
Proceeds from disposal of long-term investment securities		1,940,936
Deferred exploration costs, net of option payments	<u>(5,074,227)</u>	<u>(1,643,459)</u>
Net cash provided by (used in) investing activities	<u>(5,080,344)</u>	<u>310,857</u>
Increase in cash and cash equivalents for the year	706,914	4,217,512
Cash and cash equivalents, beginning of year	<u>6,255,222</u>	<u>2,037,710</u>
Cash and cash equivalents, end of year	\$ 6,962,136	\$ 6,255,222

Supplemental disclosures with respect to cash flows (Note 8)

Cash and cash equivalents		
Cash	\$ 762,136	\$ 305,222
Liquid short term investments	<u>6,200,000</u>	<u>5,950,000</u>
	\$ 6,962,136	\$ 6,255,222

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Mansfield Minerals Inc. (the "Company") is a Canadian company incorporated in British Columbia. The Company is engaged in the acquisition and exploration of mineral property interests located primarily in Argentina.

The Company commissioned a bankable feasibility study on the Lindero property in the current year. The ability of the Company to realize the costs it has incurred to date on its mineral property interests is dependent upon the Company being able to finance its exploration and development expenditures and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the mineral property interest. To date, the Company has not earned revenues and is considered to be in the exploration stage.

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

As at May 31, 2011, the Company has working capital of \$6,583,245. Management believes that the Company has sufficient working capital to maintain its operations and its activities for the next fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, useful lives for amortization, inputs used in account for stock-based compensation expense, inputs and estimates used in calculating asset retirement obligations and the valuation allowance applied to deferred income taxes. Actual results could differ from these estimates.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and the following subsidiaries, all of which are 100% owned:

Mansfield (Bermuda) Ltd.
Argex Mining (Barbados) Inc.
Mansfield Minera S.A.

All inter-company transactions and balances have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Financial Instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

Investments in equity investees are accounted for using the equity method. Under the equity method, the original cost of the investee is adjusted for the Company's share of post-acquisition earnings or losses and is reduced for dividends received. The Company does not have any investments in equity investees.

The Company has classified its cash and cash equivalents as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities and due to related parties are classified as other liabilities, which are measured at amortized cost.

The Company follows CICA Section 3862, which requires an increased emphasis on disclosing the nature and the extent of risk arising from financial statements and how the entity manages those risks, and CICA Section 3863, which establishes standards for presentation of financial instruments and non-financial derivatives.

CICA Handbook Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments Presentation were amended to place increased emphasis on disclosure about the nature and the extent of risks arising from financial instruments and how the entity manages those risks. Disclosure is also required about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Deferred exploration costs

The Company records deferred exploration costs, which consist of costs attributable to the exploration of mineral property interests, at cost. All direct and indirect costs relating to the acquisition and exploration of these mineral property interests are capitalized on the basis of specific claim blocks until the mineral property interests to which they relate are placed into production, the mineral property interests are disposed of through sale or where management has determined there to be an impairment. If a mineral property interest is abandoned, the related deferred exploration costs will be written off to operations in the period of abandonment. At May 31, 2011, the amount of \$10,414 of general exploration costs not attributable to specific mineral property interests (May 31, 2010 - \$23,298) were written off.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Deferred exploration costs (cont'd...)

Any option payments received by the Company from third parties are credited to the capitalized cost of the mineral property. If option payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received.

On an ongoing basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject mineral property interest. Management's determination for impairment is based on: i) whether the Company's exploration programs on the mineral property interests have significantly changed, such that previously identified resource targets are no longer being pursued; ii) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future or iii) whether remaining lease terms are insufficient to conduct necessary studies or exploration work. As at May 31, 2011 and 2010, management believes that no impairment relating to deferred exploration costs was required.

The recorded cost of deferred exploration costs may not reflect recoverable value as this will be dependent on future development programs, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the cost of the related long-lived asset.

The following table presents the aggregate carrying amount of the obligation associated with the retirement of the mineral property interests.

	2011	2010
Asset retirement obligation – beginning of year	\$ 1,123,887	\$ 741,599
Liabilities incurred	314,554	353,627
Accretion expense	<u>43,319</u>	<u>28,661</u>
Asset retirement obligation – end of year	\$ 1,481,760	\$ 1,123,887

The total undiscounted amount of estimated cash flows, required to settle the obligation is \$1,998,658 which was adjusted for inflation at the rate of 20% and then discounted at 5.0%. Certain minimum amounts of asset retirement obligations will occur each year with the significant amounts to be paid on abandonment of the mineral property interests.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Equipment

Equipment is recorded at cost and amortization is calculated at the following rates per annum using the declining-balance method:

Vehicles	30%
Office furnishings	20%
Equipment	30%

Stock-based compensation

The Company recognizes compensation expense for all stock options granted over the vesting term of the options, using the fair value based method of accounting. Any cash paid on the exercise of stock options is credited to capital stock.

Future income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted-average number of shares outstanding during the year.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollar equivalents using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in loss for the year.

Foreign currency denominated monetary accounts of the Company are translated at the exchange rate in effect at the balance sheet date. Foreign currency denominated non-monetary accounts of the Company are translated at historical exchange rates. Exchange gains and losses on translation are recognized in the year they arise.

Recent accounting pronouncements

Business combinations (Section 1582)

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The Company does not expect the adoption of this section to have a significant effect on its financial statements.

Consolidated financial statements (Section 1601) and non-controlling interests (Section 1602)

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The Company does not expect the adoption of these sections to have a significant effect on its financial statements.

International financial reporting standards ("IFRS")

In February 2008 the Canadian Accounting Standards Board ("AcSB") announced that publicly-listed companies are to adopt IFRS, replacing Canadian GAAP, for interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. Accordingly, the Company will commence reporting under IFRS for its fiscal year commencing June 1, 2011, and will present its first IFRS-based financial statements for its interim fiscal quarter ending August 31, 2011. The transition date of June 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011.

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

MANSFIELD MINERALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Capital Management (cont'd...)

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its mineral properties, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. At this stage of the Company's development, in order to maximize ongoing development efforts, the Company does not pay out dividends. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended May 31, 2011. The Company is not subject to externally imposed capital requirements.

3. EQUIPMENT

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vehicles	\$ 274,337	\$ 188,851	\$ 85,486	\$ 291,825	\$ 216,690	\$ 75,135
Office furnishings	85,527	71,170	14,357	103,082	83,547	19,535
Equipment	<u>178,015</u>	<u>145,983</u>	<u>32,032</u>	<u>205,537</u>	<u>167,021</u>	<u>38,516</u>
	\$ 537,879	\$ 406,004	\$ 131,875	\$ 600,444	\$ 467,258	\$ 133,186

4. MINERAL PROPERTY INTERESTS

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to its mineral property and, to the best of its knowledge, title to its property is in good standing. The mineral property interests in which the Company has committed to earn an interest are located in Argentina and the Company is therefore relying on title opinion by legal counsel who are basing such opinions on the laws of Argentina.

Lindero, Argentina

The Company holds a 100% interest in the Lindero-Arizaro property in Salta Province, Argentina.

MANSFIELD MINERALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2011

5. DEFERRED EXPLORATION COSTS

	As at May 31, 2011		
	Direct	Written-off or Transferred	Total
Argentina properties			
Lindero-Arizaro	\$ 18,865,031	\$	\$ 18,865,031
General exploration, write-offs or transfers to Pachamama	<u>15,030,506</u>	<u>(15,030,506)</u>	
Total Argentina	\$ 33,895,537	\$ (15,030,506)	\$ 18,865,031

	As at May 31, 2010		
	Direct	Written-off or Transferred	Total
Argentina properties			
Lindero-Arizaro	\$ 13,334,878	\$	\$ 13,334,878
General exploration, write-offs or transfers to Pachamama	<u>15,020,092</u>	<u>(15,020,092)</u>	
Total Argentina	\$ 28,354,970	\$ (15,020,092)	\$ 13,334,878

	Balance, May 31, 2009	Net Additions	Balance, May 31, 2010	Net Additions	Balance, May 31, 2011
Field operations	\$ 1,342,860	\$ 27,483	\$ 1,370,343	\$ 123,783	\$ 1,494,126
Assays	1,592,468	6,694	1,599,162	111,136	1,710,298
Administrative services	1,669,510	3,908	1,673,418	13,156	1,686,574
Transportation & vehicle maint.	4,153,692	115,219	4,268,911	432,346	4,701,257
Wages and benefits	316,366		316,366		316,366
Geology and mapping	7,916,625	1,343,729	9,260,354	3,218,409	12,478,763
Geophysics	179,308		179,308		179,308
Roads and trenches	1,523,175	434,377	1,957,552	509,751	2,467,303 ⁽¹⁾
Taxes and licenses	396,787	108,247	505,034	42,127	547,161
Office rentals and support	588,083	9,034	597,117	8,455	605,572
Drilling	5,921,508		5,921,508	1,168,939	7,090,447
Joint venture billings	2,091,538		2,091,538		2,091,538
Option payments and recoveries	<u>(1,366,687)</u>	<u>(18,954)</u>	<u>(1,385,641)</u>	<u>(87,535)</u>	<u>(1,473,176)</u>
	26,325,233	2,029,737	28,354,970	5,540,567	33,895,537
Less: write-offs and transfers to Pachamama	<u>(14,996,794)</u>	<u>(23,298)</u>	<u>(15,020,092)</u>	<u>(10,414)</u>	<u>(15,030,506)</u>
	\$ 11,328,439	\$ 2,006,439	\$ 13,334,878	\$ 5,530,153	\$ 18,865,031

(1) Included is \$314,554 in liabilities incurred with respect to the Company's asset retirement obligation.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

During the year, the Company completed a private placement for gross proceeds of \$2,300,000. The Company issued 1,000,000 units at \$2.30 per unit, each unit consisting of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase one additional common share at \$2.75 until May 16, 2012. In addition, the Company issued 60,000 finder's options at a price of \$2.30 which expire on May 16, 2012. The fair value of the compensation options of \$38,367 was calculated using the Black-Scholes method with a volatility of 64%, a risk-free rate of 1.54%, an expected life of 1.5 years and a dividend rate of 0%.

Also during the year, the Company completed an additional private placement for gross proceeds of \$4,762,500. The Company issued 1,905,000 units at \$2.50 per unit, each unit consisting of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase one additional common share at \$3.00 until March 21, 2012. In addition, the Company issued 61,650 finders' units, each finder's unit consisting of one common share and one-half of one common share purchase warrant, each whole warrant entitling the finder to purchase one additional common share at \$3.00 until March 21, 2012. In addition, 108,300 compensation options were issued at a price of \$2.50 until March 21, 2012.

The fair value of the finders' options and finders' warrants of \$106,874 was calculated using the Black-Scholes method with a volatility of 78%, a risk-free rate of 1.64%, an expected life of 1 year and a dividend rate of 0%.

The following weighted average assumptions were used for the Black-Scholes method of valuation of finder's warrants and compensation options.

	May 31, 2011	May 31, 2010
Risk-free interest rate	1.61 %	1.78%
Expected life of options and compensation options	1.15 Years	2 Years
Annualized volatility	73.7%	99.16%
Dividend rate	0%	0%

Authorized

Unlimited common shares without par value.

Treasury shares

Treasury shares are recorded at cost.

Stock options

Under the Company's stock option plan effective October 9, 2002 and amended September 23, 2005, September 26, 2007 and October 27, 2008, the Company may grant options for up to 5,964,916 common shares to directors, employees and consultants at exercise prices to be determined by the market value on the date of grant. The expiry date of an option shall be no later than the tenth anniversary of the grant date. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted with the exception of options granted in relation to investor relations. Options granted to consultants engaged in investor relations activities must vest no earlier than as to one-quarter upon the grant date and as to a further one-quarter after each of the following three four-month periods.

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6. CAPITAL STOCK (cont'd...)

Stock options (cont'd...)

At May 31, 2011, the following incentive stock options were outstanding:

Number of Options	Exercise Price	Expiry Date	Exercisable
4,225,000	\$ 0.23	December 29, 2013	4,225,000
<u>100,000</u>	2.53	March 23, 2013	<u>100,000</u>
4,325,000			4,325,000

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, May 31, 2009	4,425,000	\$ 0.23
Options granted	100,000	1.30
Options exercised	<u>(150,000)</u>	0.23
Balance, May 31, 2010	4,375,000	0.26
Options granted	135,000	2.34
Options exercised	<u>(185,000)</u>	1.15
Balance, May 31, 2011	4,325,000	\$ 0.28
Number of options currently exercisable	4,325,000	\$ 0.28

Weighted average fair value of options granted during the year:

2011	\$ 0.89
2010	\$ 0.19

Stock-based compensation

The Company recognizes compensation for all stock options and warrants granted using the fair value based method of accounting. During the year ended May 31, 2011, the Company recognized \$172,026 (2010 - \$21,433) in stock-based compensation expenses with respect to options vested during the year. The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

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6. CAPITAL STOCK (cont'd...)

Stock-based compensation (cont'd...)

	2011	2010
Risk-free interest rate	1.60 %	1.84%
Expected life of options and compensation options	1.61 Years	1 Year
Annualized volatility	65.88%	103.86 %
Dividend	0%	0%

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Expiry Date	Weighted Average Exercise Price
Balance, May 31, 2009			
Warrants granted	1,725,000	May 18, 2012	\$ 1.80
Compensation options granted	<u>207,000</u>	May 18, 2012	1.50
Balance, May 31, 2010	1,932,000		1.77
Warrants granted	500,000	May 16, 2012	2.75
Warrants granted	952,500	Mar 21, 2012	3.00
Compensation options granted	60,000	May 16, 2012	2.30
Compensation options granted	108,300	Mar 21, 2012	2.50
Compensation options exercised	(37,260)	May 18, 2012	1.50
Finder's warrants granted	<u>30,825</u>	Mar 21, 2012	3.00
Balance, May 31, 2011	3,546,365		\$ 2.28

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees in the amount of \$240,000 (2010 - \$240,000) to companies controlled by directors. The Company owed \$28,425 to these private companies as at May 31, 2011 (2010 - \$6,904).
- b) Paid or accrued administrative fees in the amount of \$122,988 (2010 - \$157,518) to officers and to companies controlled by directors of the Company, which included \$102,000 in consulting fees (2010 - \$102,000), \$20,988 in fees and taxes (2010 - \$19,687) and \$Nil in investor relations and shareholder information (2010 - \$35,831). The Company owed \$83,234 to these companies as at May 31, 2011 (2010 - \$34,153).

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7. RELATED PARTY TRANSACTIONS (cont'd...)

Amounts due to related parties have no specific terms of repayment, are unsecured, and have no interest rate.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and are covered by signed agreements. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Other than disclosed elsewhere in these consolidated financial statements, the significant non-cash transaction for the year ended May 31, 2011 was deferred exploration costs of \$269,364 (2010 - \$117,578) which were included in accounts payable and accrued liabilities.

For the year ended May 31	2011	2010
Cash paid for income taxes		
Cash paid for interest		

9. INCOME TAXES

Income tax recovery varies from the amount that would be computed by applying the combined federal and provincial income tax rate to loss before income taxes as follows:

	2011	2010
Loss for the year before income taxes	\$ (1,495,744)	\$ (1,573,661)
Expected income tax recovery	\$ (413,827)	\$ (465,536)
Write-off of deferred exploration costs	2,881	6,892
Stock-based compensation	47,594	6,341
Loss on disposal of marketable securities		127,731
Amortization and accretion	17,124	15,413
Gain on disposal of equipment	(3,084)	(3,912)
Share issuance costs	(99,830)	(116,078)
Differences in foreign tax rates	24,295	22,055
Tax loss benefit not for book purposes	424,847	407,095
Actual income tax recovery	\$	\$

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9. INCOME TAXES (cont'd...)

The significant components of the Company's future tax assets are as follows:

	2011	2010
Net operating loss carry forwards	\$ 2,652,645	\$ 2,311,423
Net capital loss carry forwards	113,746	113,746
Cumulative exploration and development expenses	1,835,762	1,835,762
Equipment	37,645	37,645
Share issuance costs	<u>122,447</u>	<u>139,344</u>
	4,762,245	4,437,920
Less: valuation allowance	<u>(4,762,245)</u>	<u>(4,437,920)</u>
Net future tax assets	<u>\$</u>	<u>\$</u>

The Company has available for deduction against future taxable income non-capital losses in Canada of approximately \$8,350,000 and in Argentina of approximately \$1,615,000. The Argentinean and Canadian non capital losses, if not utilized, will expire through 2015, and 2030, respectively. The Company also has capital losses available of approximately \$910,000, which can be carried forward indefinitely. Subject to certain restrictions, the Company also has resource expenditures available in Canada to reduce taxable income in future years. Future tax benefits which may arise as a result of the non-capital losses and resource expenditures have been offset by a valuation allowance due to the uncertainty of their realization.

10. FINANCIAL INSTRUMENTS

Fair value

The carrying value of receivables, accounts payable and accrued liabilities and due to related parties approximated their fair value because of the short-term nature of these instruments.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 6,962,136	\$	\$	\$ 6,962,136

10. FINANCIAL INSTRUMENTS (cont'd...)

Risk management

The Company does not maintain significant cash or other monetary assets or liabilities outside of Canada.

The Company relies on local consultants for the management of its exploration activities and for legal and accounting matters.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's receivables consist of interest receivable on its cash equivalent balances and input tax credits receivable from the Government of Canada. As such, the Company believes it has no significant credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2011, the Company had a cash and cash equivalent balance of \$6,962,136 (May 31, 2010 - \$6,255,222) to settle current liabilities of \$440,090 (May 31, 2010 - \$253,590). Management believes that it has sufficient funds to meet its current liabilities as they become due.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances and interest-bearing investments. The interest earned on the investments approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of May 31, 2011, the Company had a total of \$6,200,000 in investment-grade short-term deposit certificates.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to financial instruments that are denominated in United States dollars ("U.S. \$") and the Argentina Peso (Peso). A 10% fluctuation in the U.S. \$ and Peso against the Canadian dollar would affect net loss for the period by approximately \$70,000.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and copper, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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11. SEGMENTED INFORMATION

The Company's one reportable operating segment is the exploration and development of mineral properties. Geographic information is as follows:

	Total Assets	Equipment	Deferred Exploration Costs	Other Assets
May 31, 2011				
Canada	\$ 6,564,728	\$ 3,494	\$	\$ 6,561,234
Bermuda	6,071			6,071
Argentina	<u>19,449,442</u>	<u>128,381</u>	<u>18,865,031</u>	<u>456,030</u>
	\$ 26,020,241	\$ 131,875	\$ 18,865,031	\$ 7,023,335
May 31, 2010				
Canada	\$ 6,214,183	\$ 4,542	\$	\$ 6,209,641
Bermuda	14,389			14,389
Argentina	<u>13,532,863</u>	<u>128,644</u>	<u>13,334,878</u>	<u>69,341</u>
	\$ 19,761,435	\$ 133,186	\$ 13,334,878	\$ 6,293,371

	2011	2010
Loss before other items:		
Canada	\$ 1,071,255	\$ 1,024,548
Bermuda	27,707	31,371
Argentina	<u>193,394</u>	<u>129,180</u>
	\$ 1,292,356	\$ 1,185,099

12. COMMITMENTS

The Company has entered into lease agreements for its premises in Canada and Argentina. The annual lease commitments are as follows:

	Canada	Argentina
2012	\$ 70,000	\$ 34,000
2013	71,000	39,000
2014	76,000	44,000
2015	84,000	52,000
2016	<u>84,000</u>	<u>52,000</u>
	\$ 385,000	\$ 221,000

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12. COMMITMENTS (cont'd...)

The Company has entered into certain management services agreements. The annual management services commitments are as follows:

2012	\$ 600,000
2013	600,000
2014	<u>600,000</u>
	<u>\$ 1,800,000</u>

The Company is obligated to pay key employees certain bonuses with respect to the Lindero project upon the occurrence of one of the following events:

- a) The completion of the sale of the Lindero project to an arm's length third party.
- b) Subject to the discretion of the board of directors of the Company, upon the completion and receipt by the Company of a positive NI43-101 feasibility study together with a positive mine production decision in relation to the Lindero project.
- c) Upon completion of a change of control of the Company.

The maximum amount to be paid upon the occurrence of one of these events would be \$1,600,000.