



September 22, 2011

## **Management Discussion & Analysis for the Year Ended May 31, 2011**

Management's Discussion and Analysis (MD&A) is intended to help the reader understand the Mansfield Minerals Inc. (the "Company" or "Mansfield") financial statements. The information provided herein should be read in conjunction with the Company's audited financial statements and notes for the years ended May 31, 2011 and 2010. The following comments may contain management estimates of anticipated future trends, activities or results. These are not a guarantee of future performance, since actual results could change based on other factors and variables beyond management control.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure the information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The board's audit committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review Company statutory filings on [www.sedar.com](http://www.sedar.com) and to review general information including reports and maps on the Company's website at [www.mansfieldminerals.com](http://www.mansfieldminerals.com).

## **DESCRIPTION OF BUSINESS AND OVERVIEW**

Mansfield is a mineral exploration company led by a team of experienced engineers and geologists. The Company began exploration in Argentina in 1994 and has since discovered a number of new mineral occurrences. Mansfield's core asset is its wholly owned Lindero gold deposit which hosts a NI 43-101 compliant gold reserve of 1.92 million ounces of gold within a 2.95 million ounce resource. The Arizaro porphyry copper-gold target is located within the 35 square kilometre Lindero property. In 2008, the Company elected to dividend out a number of its exploration stage properties into a new Company, Pachamama Resources Ltd. (PMA - TX:V), in order to focus its efforts on developing the Lindero deposit. Each existing common share of the Company was exchanged for one new common share of Mansfield and one common share of Pachamama.

The following is a summary of the past year's significant milestones:

- In June 2010, the Company commissioned AMEC Americas Limited ("AMEC") and Kappes, Cassiday & Associates to undertake a full bankable feasibility study on its 100% owned Lindero gold project which is currently ongoing.
- In November 2010, the Company completed a non-brokered private placement for gross proceeds of \$2.3 million. 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 February 2011, the Company announced the discovery of a porphyry gold-copper gold system in the Arizaro portion of the Lindero project while completing a 2,000 metre condemnation drill program at Lindero.
- In March 2011, the Company completed a non-brokered 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 March 2011, David Raffa was appointed to the Company's board of directors to serve as an independent director.
- In May 2011, the Company commenced a 3,000 metre diamond drill campaign on the Arizaro gold-copper system and results are currently pending.
- In September 2011, the Company adopted a Shareholder Rights Plan substantially similar to the Company's predecessor plan which expired in September.

In late August 2011, gold touched a high of US\$1,900/oz and has recently been trading in the low to mid US\$1,800 range. Although interest rates were starting to show some upward bias, recent debt issues in Europe and weakness in U.S. employment numbers have forced the respective central banks to back off interest rates again. The U.S. Federal Reserve has stated that a 0% interest rate environment is likely for at least the next 2 years. This, coupled with the fact that Standard and Poor's downgraded the U.S. debt rating to AA+ from AAA, is very positive for gold for at least that timeframe.

The Company currently has working capital of approximately \$4,800,000.

## **MINERAL PROJECT REVIEW**

This review has been prepared by John M. Leask, P.Eng., a Director of the Company, and a Qualified Person ("QP") as defined by National Instrument 43-101 (Standards of Disclosure for Mineral Projects).

The Company's portfolio consists solely of the Lindero heap leach oxide gold deposit located in Salta Province, northwestern Argentina. Lindero is 100% owned by the Company and covers 3,500 hectares (13.50 square miles).

### **Prefeasibility Study Results – March 2010**

The Company announced the results from a National Instrument 43-101 compliant pre-feasibility study (the "Study") for its 100% owned Lindero gold project in Salta Province, Argentina. The Study was completed by AMEC in association with American Au Ag Associates and Kappes, Cassidy & Associates. The Study contemplates conventional open pit mining operation and heap leach gold recovery. Over the initial three years of production 31.9 million tonnes of ore will be mined at an average grade of 0.81 grams/tonne containing 830,000 oz of gold. Leach kinetics provide for the recovery of 499,700 oz/gold in years 1-3 with the remaining 83,800 oz recovered as leaching proceeds based on a 70.31% recovery. Heap leaching over the first five years will produce an average of 161,000 ounces of gold at a cash cost of US\$373 per ounce. Highlights of the project economic estimates are summarized below.

#### ***Pre-tax Project Economics*<sup>(1)(2)</sup>**

<b>Gold price (\$US/oz)</b>	<b>Net Present Value (US\$ million)</b>			<b>IRR (%)</b>	<b>Payback (years)</b>
	<b>Discount Rate (%)</b>				
	<b>4.0%</b>	<b>6.0%</b>	<b>8.0%</b>		
<b>\$850<sup>(3)</sup></b>	\$237	\$194	\$157	25.9%	2.8
<b>\$975</b>	\$363	\$305	\$256	35.4%	2.2
<b>\$1,100</b>	\$490	\$416	\$355	44.1%	1.9

1. Project economics have been reported by AMEC on a pre-tax basis.
2. Project economics include a Boca Mina 3% net revenue provincial royalty.
3. Base case project scenario.

The mine plan in the Study is based on measured and indicated gold resources of 2.2 million ounces of gold at a 0.20 g/t cut-off. In parallel with project development, management is currently considering further drilling with the objective of converting a portion of the additional 750,000 ounces of gold in the inferred resource category to the measured and indicated category at a 0.20 g/t gold cut-off.

## Operating Summary

		Life of Mine Total	Years 1-5 Annual Average	Life of Mine Annual Average
<b>Ore Production</b>	million tonnes	101.1	10.7	10.6
<b>Waste Production</b>	million tonnes	90.5	13.1	9.5
<b>Strip Ratio</b>	(waste:ore)	0.90	0.82	0.88
<b>Gold Head Grade</b>	g/t	0.59	0.72	0.59
<b>Metallurgical Recovery</b>	%	70.31		
<b>Payable Gold Production<sup>1</sup></b>	000 oz	1,357	161	124
<b>Mining Cost<sup>2</sup></b>	US\$/tonne	1.11	0.98	1.11
<b>Processing Cost</b>	US\$/tonne	2.24	2.19	2.24
<b>G&amp;A Cost</b>	US\$/tonne	0.85	0.84	0.85
<b>Cash Operating Cost</b>	US\$/oz	407	373	407

1. After refining and treatment charges.
2. Considering total material moved.

## Capital Costs

<b>Initial capital<sup>(3)</sup></b>	US\$	213 million
<b>Sustaining capital</b>	US\$	15 million

3. Includes a contingency of US\$18 million.

## Reserves and Resources<sup>(1)(2)(3)(4)(5)</sup>

	Cut Off Grade (g/t)	Tonnes (000's)	Average Grade (g/t)	Contained Gold (M oz)
<b>Proven Reserve</b>	0.19	27,929	0.76	0.69
<b>Probable Reserve</b>	0.19	73,169	0.52	1.24
<b>Proven &amp; Probable Reserve</b>	0.19	101,098	0.59	1.92
<b>Measured</b>	0.20	28,400	0.76	0.70
<b>Indicated</b>	0.20	94,200	0.50	1.50
<b>Measured &amp; Indicated Resource</b>	0.20	122,600	0.56	2.20
<b>Inferred Resource</b>	0.20	59,000	0.40	0.75
<b>Measured</b>	0.40	23,800	0.85	0.65
<b>Indicated</b>	0.40	48,100	0.68	1.06
<b>Measured &amp; Indicated Resource</b>	0.40	71,900	0.74	1.71
<b>Inferred Resource</b>	0.40	19,400	0.59	0.37

1. CIM definitions were followed for estimation of Mineral Resources and Mineral Reserves.
2. Mineral Resources were constrained within an economic open pit shell, generated using a gold price of US\$890 per ounce of gold, a processing cost of \$3.07 per tonne, a mining cost of \$1.10, a sales cost of \$12 per ounce and a metallurgical recovery of 70%.
3. Mineral Reserves are estimated using a cut-off grade of 0.19 g/t Au, based on a gold price of US\$775 per ounce.
4. Mineral Resources are inclusive of Mineral Reserves.
5. Mineral Resources that are not mineral reserves do not have demonstrated economic viability.

### ***Additional Details***

The Study projects a 9.5 year mine life with cumulative production of 1.357 million ounces of payable gold based on the National Instrument 43-101 compliant Reserve Estimate. Ore will be mined at an annual rate of 10.8 million tonnes, and due to favourable topography the life of mine strip ratio is 0.9:1 (waste to ore). The topography is also favourable for the location of the leach pads and waste dumps with minimal earthworks required.

The current life of mine metallurgical recovery is estimated at 70.31% weighted average for all domains in Reserves based on a two stage conventional crushing and grind circuit with a grind size of a -3/8 inch p80 = 7mm. Reagent consumption is expected to be modest (cyanide consumption of 0.436 Kg/tonne and lime of 2.75 Kg/tonne). Limestone will be sourced locally and lime produced in a calcining plant. Recent test work utilizing high pressure grinding roll (HPGR) crushers has demonstrated the potential for gold recoveries above the estimated life of mine average recoveries of 70.3% and at potentially lower operating costs.

Power will be generated utilizing natural gas supplied by a 130km connection to the regional Gasoducto de la Puna gas pipeline which was built by the Salta government to encourage mining and other economic development in the Puna region. The estimated capital cost of the natural gas connection is US\$9.9 million. Power cost is estimated at US\$0.062 per kwh based on a natural gas price of US\$5 per MMBTU.

### **Bankable Feasibility Study**

In July 2010, the Company commissioned AMEC and Kappes, Cassidy & Associates to undertake a full bankable feasibility study on Lindero. While AMEC, in association with Kappes, Cassidy, continues to work on the feasibility study, the Company has engaged an independent build team to advise on the execution and construction of an operating mine at Lindero and to optimize the build size.

### **Environmental and Permitting**

The Company has been advised by the Provincial Mining Ministry of Salta, Argentina that the global mining permit is in the final stages of the vetting process with issuance of the permit imminent. As a conventional open pit heap leach project with good accessibility and project logistics, management believes the project could be in production in less than 24 months following receipt of necessary permits and obtaining sufficient financing.

### **Arizaro Prospect**

In February 2011, the Company announced the discovery of a porphyry gold - copper gold system while completing a 2,000 metre condemnation drill program on its Lindero project. The Arizaro gold-copper porphyry is located 3 km southeast of the Lindero gold deposit. Significant copper-gold mineralization was encountered in five of the six holes that were drilled.

<b>Arizaro Drill Results</b>				
<b>Drill Hole #</b>	<b>Interval</b>	<b>Length</b>	<b>Gold (g/t)</b>	<b>Copper (%)</b>
ARD 3	10 - 34 m	24 m	0.70	0.36
ARD 4	<b>0 - 184 m</b>	<b>184 m</b>	<b>0.42</b>	<b>0.17</b>
ARD 5	0 – 268 m	268 m	0.38	0.17
	<b>incl. 84 – 246 m</b>	<b>162 m</b>	<b>0.50</b>	<b>0.16</b>
	<b>incl. 110 – 154 m</b>	<b>44 m</b>	<b>0.93</b>	<b>0.28</b>
	<b>incl. 130 – 148 m</b>	<b>18 m</b>	<b>1.44</b>	<b>0.36</b>
ARD 6			NSV	NSV

	<b>0 – 206 m</b>	<b>206 m</b>	<b>0.30</b>	<b>0.15</b>
	incl. 0 – 54 m	54 m	0.33	0.26
	incl. 44 – 54 m	10 m	0.75	0.37
	incl. 74 – 96 m	22 m	0.39	0.18
	incl. 124 – 146 m	22 m	0.45	0.20
	incl. 190 – 206 m	16 m	0.54	0.12
ARD 7				
ARD 8	24-36 m	12 m	0.64	0.24

The Arizaro porphyry body was identified prior to the discovery of the Lindero gold deposit in 1999. Management initially believed that the surface alteration zone reflected a more deeply eroded porphyry system with geologic similarities to the nearby Rio Grande property. During a field traverse in late 2010, a well-mineralized copper-gold breccia fragment was discovered in an otherwise un-mineralized fragmental body. The mineralized fragment was interpreted to be sourced from a mineralized system at depth.

Hole ARD-5 encountered an intercept of 162 metres grading 0.50 g/t gold and 0.16% copper with a sub-interval grading 0.93 g/t gold and 0.28% copper over 44 metres. The higher grade interval is believed to be part of a higher grade feeder zone. The copper mineralization identified in Hole ARD-7 is a mix of bornite and chalcopyrite.

In May 2011, the Company commenced a 3,000 metre diamond drill campaign at Arizaro with the intent of defining the size and orientation of the feeder body. The drill program is currently in the final stages of completion due to extreme winter conditions, and assay results are beginning to arrive. Once all results have been received, the Company will release the information.

## OPERATIONS AND FINANCIAL CONDITION

### Selected Annual Information

The following selected annual financial information is derived from the audited annual consolidated financial statements of the Company prepared in accordance with Canadian generally accepted accounting principles.

All in \$1,000's except Loss per Share and # of Shares	Audited Fiscal Year ended May 31		
	2011	2010	2009
Working capital	\$ 6,583	\$ 6,040	\$ 2,036
Write off of exploration & dev. expenses	10	23	40
General & administration expenses	1,120	1,164	1,479
Net loss	(1,496)	(1,574)	(6,243)
Loss per share	(0.03)	(0.04)	(0.14)
Loss per share (fully diluted)	(0.03)	(0.04)	(0.14)
Total assets	26,020	19,761	14,817
Deferred exploration & development	18,865	13,335	11,328
Other non-current assets	132	133	1,287
Total long term liabilities	1,482	1,124	741
Share capital: <sup>(1)(2)</sup>	61,679	54,671	50,066
Number of Shares: <sup>(1)(2)</sup>	50,913,131	47,724,221	44,124,221
Retained deficit	48,634	47,138	45,565

<sup>(1)</sup> The Company has only one kind and class of shares issued and outstanding, being common shares.

<sup>(2)</sup> No dividends were paid during the years reported above.

Working capital increased from 2009 through 2011 as a result of private placements in both 2010 and 2011. Loss for the 2009 year was influenced by a significant loss on disposal of long-term investment securities as well as a stock-based compensation charge of over \$900,000, significantly higher than charges recorded in 2010 and 2011. General and administrative expenses for the three years were consistent with no unusual items. The most significant additions to deferred exploration and development in Lindero, Argentina were the costs of the pre-feasibility study in 2010 and the feasibility study and Arizaro drilling program in 2011.

## **Results of Operations**

### *Year ended May 31 2011 and May 31 2010*

Loss for the year ended May 31 decreased from \$1,573,661 or \$0.04 per share in 2010 to \$1,495,744 or \$0.03 per share in 2011. If the write-off of deferred exploration costs of \$23,298 in 2010 and \$10,414 in 2011 is excluded, the loss has decreased from \$1,550,363 in 2010 to \$1,485,330 in 2011. Write-off of deferred exploration costs in 2010 and 2011 consisted of costs associated with general exploration expenses in Argentina. General and administrative costs for the year ended May 31, 2011, excluding a stock-based compensation charge of \$172,026 (2010 - \$21,433) totalled \$1,120,330 (2010 - \$1,163,666). The main components of expenses include consulting fees of \$193,252 (2010 - \$152,097); investor relations and shareholder information costs of \$240,858 (2010 - \$247,316); management fees of \$240,000 in both years and wages and benefits of \$88,142 (2010 - \$45,902). General and administrative expenses remained constant over the two years with most categories reporting similar amounts year over year. The Company incurred marginally larger wages and benefits, travel and entertainment and legal expenses in 2011 over 2010, while fees and taxes decreased in 2011.

There was \$51,924 of interest income for the period ending May 31, 2011, compared to \$7,686 for the same period of 2010.

Prepaid expenses and receivables at May 31, 2011 were \$61,199 up from \$38,149 in 2010.

Exploration expenditure additions totalled \$5,074,227 in 2011, up from \$1,643,459 for the same period in 2010.

The Company's activities were focused on development of the Lindero deposit and costs related to the preparation of a full feasibility report.

The breakdown of material components of deferred exploration costs as at May 31, 2011 and May 31, 2010 are as follows:

	Balance, May 31, 2011	Balance, May 31, 2010
Field operations	\$ 1,494,126	\$ 1,370,343
Assays	1,710,298	1,599,162
Administrative services	1,686,574	1,673,418
Transportation & vehicle maint.	4,701,257	4,268,911
Wages and benefits	316,366	316,366
Geology and mapping	12,478,763	9,260,354
Geophysics	179,308	179,308
Roads and trenches	2,467,303	1,957,552
Taxes and licenses	547,161	505,034
Office rentals and support	605,572	597,117
Drilling	7,090,447	5,921,508
Joint venture billings	2,091,538	2,091,538
Option payments and recoveries	<u>(1,473,176)</u>	<u>(1,385,641)</u>
	33,895,537	28,354,970
Less: write-offs and transfers to Pachamama	<u>(15,030,506)</u>	<u>(15,020,092)</u>
	<u>\$ 18,865,031</u>	<u>\$ 13,334,878</u>

The breakdown of material components of general and administrative expenses for the years ended May 31, 2011 and May 31, 2010 are as follows:

	May 31, 2011	May 31, 2010
<b>General and administrative expenses</b>		
Accounting and audit	\$ 50,488	\$ 45,423
Accretion	43,319	28,661
Amortization	18,575	23,441
Bank charges and interest	7,489	4,948
Consulting fees	193,252	152,097
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>
	<u>\$ 1,120,330</u>	<u>\$ 1,163,666</u>

### Summary of Quarterly Results

The following is a summary of certain selected unaudited financial information for the most recent eight fiscal quarters comprising the Company's preceding two fiscal years. Highlights of the tables below include increases in working capital and total assets as a result of private placements in May 2010, November 2010 and March 2011. The Company's losses remained consistent over the eight quarters with the exception of the third quarter 2010 when the Company reported a significant loss on disposal of long-term investment securities:

#### Unaudited Fiscal Quarters of the Fiscal Year ended May 31, 2011

All in \$1,000's except loss per share	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Working capital	\$ 5,356	\$ 5,463	\$ 3,514	\$ 6,583
Loss	\$ 270	\$ 378	\$ 375	\$ 472
Loss per share	\$ 0.006	\$ 0.008	\$ 0.008	\$ 0.001
Loss per share (fully diluted)	\$ 0.006	\$ 0.008	\$ 0.008	\$ 0.001
Total assets	\$ 19,416	\$ 21,316	\$ 20,936	\$ 26,020
Total liabilities	\$ 1,289	\$ 1,369	\$ 1,326	\$ 1,922
Deficit	\$ 47,409	\$ 47,787	\$ 48,162	\$ 48,634

**Unaudited**  
**Fiscal Quarters of the Fiscal Year ended May 31, 2010**

All in \$1,000's except loss per share	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Working capital	\$ 1,370	\$ 1,117	\$ 1,485	\$ 6,040
Loss	\$ 215	\$ 302	\$ 714	\$ 342
Loss per share	\$ 0.005	\$ 0.007	\$ 0.016	\$ 0.008
Loss per share (fully diluted)	\$ 0.005	\$ 0.007	\$ 0.016	\$ 0.008
Total assets	\$ 14,768	\$ 14,747	\$ 14,741	\$ 19,761
Total liabilities	\$ 946	\$ 981	\$ 899	\$ 1,377
Deficit	\$ 45,779	\$ 46,081	\$ 46,796	\$ 47,138

Fourth Quarter ended May 31 2011

The Company's loss for the quarter ended May 31, 2011 totalled \$471,938, a loss of \$0.001 per share, as compared to a loss of \$375,053 (\$0.008 loss per share) for the quarter ended February 28, 2011 [(loss for the quarters: November 30, 2010 – \$378,447 (\$0.008 loss per share); August 31, 2010 – loss of \$270,306 (\$0.006 loss per share)]. An adjustment to the write-off of deferred exploration costs of \$2,932 (total write-off for the nine months ended February 28, 2011 was \$13,346), and a stock-based compensation charge of \$127,513 (total stock-based compensation costs for the nine months ended February 28, 2011 were \$44,513) offset by an increase of \$17,638 in interest income (total interest income for the nine months ended February 28, 2011 was \$34,286) contributed to the current quarter's loss.

Administrative expenses, excluding the charge for stock-based compensation of \$127,513, totalled \$209,107 (February 28, 2011 year to date - \$911,223, excluding stock-based compensation expense of \$44,513). The significant quarterly expenses were \$25,371 in accounting and audit, where the accrual for the 2011 audit was included, \$22,775 in transfer agent and listing fees where the 2011 exchange sustaining fee was recorded as well as consulting fees (\$37,289), investor relations and shareholder information (\$49,972), management fees (\$60,000), wages (\$19,827) and rent (\$11,764), all of which represent approximately 25% of the annual totals for those categories. Interest income as well as other expenses which affect the loss fluctuate from quarter to quarter and could include realized gains on disposal of long-term investment securities, gains on disposal of equipment, and gains or losses on foreign exchange which do not occur on a regular basis.

The Company's cash and cash equivalents increased by \$3,493,745 during the quarter ended May 31, 2011, from \$3,468,391 as at February 28, 2011 to \$6,962,136 as at May 31, 2011. Cash resources used in operations during the quarter ended May 31, 2011 totalled \$153,165 and cash resources used in investing activities during the quarter ended May 31, 2011 was \$1,185,601, including \$1,222,506 cash used in deferred exploration costs. Cash provided by financing activity during the quarter totalled \$4,832,511.

**Liquidity**

Cash and cash equivalents at May 31, 2011 totalled \$6,962,136 compared to \$6,255,222 at May 31, 2010. Working capital at May 31, 2011 was \$6,583,245 compared to \$6,039,781 as at May 31, 2010. Deferred exploration costs at May 31, 2011; all in Argentina, totalled \$18,865,031 compared to \$13,334,878 at May 31, 2010. Cash used in investing activities during the year ended May 31, 2011 was \$5,080,344 in comparison to cash provided of \$310,857 in 2010. Cash provided by financing activities during the year ended May 31, 2011 was \$7,038,151 compared to \$4,784,176 used for the year ended May 31, 2010. The Company has sufficient working capital to continue the exploration and development at the Company's Lindero project.

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.

## **Capital Resources**

The Company's authorized capital consists of an unlimited number of common shares without par value. At May 31, 2011 and September 22, 2011, the Company had 50,913,131 issued and outstanding common shares (May 31, 2010 - 47,724,221).

The Company adopted a formal written stock option plan ("Stock Option Plan") on October 9, 2002. Under this plan, the Company may grant options for up to 5,019,516 common shares to directors, employees and consultants at exercise prices to be determined by the market value on the date of grant. 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. The options can be granted for a maximum term of 5 years. At the Annual General Meeting on October 28, 2005, the Shareholders approved an amendment to the Stock Option Plan to reflect the Company's increased issued and outstanding capital. As a result, the Company may now grant options for up to 5,964,916 common shares. The Stock Option Plan and subsequent amendments were approved by the TSX Venture Exchange (the "Exchange") on November 22, 2002 and November 19, 2005, October 23, 2007 and October 2, 2008 respectively.

During the year ended May 31, 2011, 185,000 stock options were exercised at prices ranging from \$0.40 to \$1.80 and 135,000 stock options were granted at prices ranging from \$1.80 to \$2.53. As at May 31, 2011 the Company had 4,325,000 stock options outstanding at exercise prices ranging from \$0.23 per share to \$2.53 per share with expiry dates ranging from March 23, 2013 to December 29, 2013. Subsequent to May 31, 2011, there were no options granted or exercised. If exercised, the remaining 4,325,000 stock options would increase the Company's available cash by \$1,224,750.

During the year ended May 31, 2011, 1,000,000 units were issued at a purchase price of \$2.30 per Unit pursuant to a private placement financing for net cash proceeds of \$2,149,750. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share of the Company at an exercise price of \$2.75 per share exercisable until May 16, 2012. In addition, 60,000 compensation options were issued at an exercise price of \$2.30 per common share exercisable until May 16, 2012.

Also during the year, an additional 1,905,000 units were issued at a purchase price of \$2.50 per unit pursuant to a private placement financing for net cash proceeds of \$4,621,292. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share of the Company at an exercise price of \$3.00 per share exercisable until March 21, 2012. In addition, 61,650 finders' units were issued. Each finder's unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the finder to purchase one additional common share of the Company at an exercise price of \$3.00 per share exercisable until March 21, 2012. In addition, 108,300 compensation options were issued at an exercise price of \$2.50 per common share exercisable until March 21, 2012.

During the year ended May 31, 2011, there were no warrants exercised and there were 37,260 compensation options exercised at a price of \$1.50.

At May 31, 2011, there were 3,177,500 warrants outstanding at exercise prices ranging from \$1.80 to \$3.00 with expiry dates ranging from March 21, 2012 to May 18, 2012. At May 31, 2011, there were 338,040 compensation options outstanding at exercise prices ranging from \$1.50 to \$2.50 with expiry dates ranging from March 16, 2012 to May 18, 2012. At May 31, 2011, there were 30,825 finders' warrants outstanding at an exercise price of \$3.00 with an expiry date of March 21, 2012. If exercised, the 3,177,500 warrants, 338,040 compensation options and 30,825 finders' warrants would increase the Company's available cash by \$8,093,335.

The Company's financial success will be dependent 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. There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations.

## **Related Party Transactions**

The Company entered into the following transactions with related parties as follows:

During the year ended May 31, 2011, the Company paid or accrued management fees in the amount of \$240,000 (2010 - \$240,000) to Eagle Putt Ventures Inc. and Rangefront Exploration Corp., private companies controlled by Gordon P. Leask and John M. Leask respectively, directors of the Company.

During the year ended May 31, 2011, the Company paid or accrued administrative fees in the amount of \$122,988 (2010 – \$157,518) to officers and to Cerro Rico Management Corp., a private company controlled by Megan M. Cameron-Jones, a director of the Company.

Amounts payable 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.

## **Investor Relations**

Investor relations activities are performed by directors and officers of the Company.

## **Shareholder Rights Plan**

In September 2007, the Company adopted a Shareholder Rights Plan to provide the Board of Directors of the Company and the shareholders more time to consider fully any unsolicited take-over bid for the Company. The Shareholder Rights Plan was ratified at the Company's Annual General Meeting held on November 29, 2007 and accepted for filing by the TSX Venture Exchange on January 9, 2008. This Shareholder Rights Plan expired on September 5, 2011.

In September 2011, the board of directors of the Company has adopted a Shareholder Rights Plan (the "Rights Plan") effective September 5, 2011 to encourage the fair treatment of shareholders and to protect shareholders from unfair, abusive or coercive takeover strategies in any takeover offer for the Company. The Rights Plan is substantially similar to the Company's predecessor shareholder rights plan. The Rights Plan addresses the Company's concerns that existing Canadian legislation does not allow sufficient time, if a take-over bid is made, for either the shareholders or the board of directors to properly consider the bid, or for the board of directors to maximize shareholder value by seeking alternatives to the bid. The Rights Plan will provide the board of directors of the Company and the shareholders more time to consider fully any unsolicited take-over bid for the Company. It will also allow more opportunity for the board of directors to pursue other alternatives, if appropriate, to maximize shareholder value and to allow additional time for competing bids to emerge. To implement the Rights Plan, the board of directors of the Company authorized the issue effective September 5, 2011, of one right to purchase as common share of the Company (a "Right") in respect of each common share of the Company outstanding to holders of record on September 5, 2011. One Right will also be issued in conjunction with each common share of the Company issued while the Rights Plan is in effect. For administrative convenience, the Rights will trade with the common shares and be represented by certificates representing common shares.

The Rights issued under the Rights Plan become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20 percent or more of the Company's outstanding common shares without complying with the "Permitted Bid" provisions of the Rights Plan or without approval of the board of directors of the Company. Should such an acquisition occur or be announced, each Right would, upon exercise, entitle a Rights holder, other than the acquiring person and related persons, to purchase common shares of the Company at a 50% discount to the market price at the time. The Rights Plan is not being proposed in response to, or in anticipation of, any acquisition or takeover offer and is not intended to prevent a takeover bid for the Company. Under the Rights Plan, takeover bids that meet certain requirements intended to protect the interests of all shareholders are deemed to be "Permitted Bids". A Permitted Bid is a bid made to all holders of the Company's common shares which is open for acceptance for not less than 60 days. If at the end of 60 days at least 50% of the outstanding shares, other than those owned by the offeror and certain related parties, have been tendered the offeror may take up and pay for the shares but must extend the bid for a further 10 days to allow other shareholders to tender.

The Rights Plan has a term of four years. Although the Rights Plan is effective as of September 5, 2011, in accordance with stock exchange requirements, it will be submitted to shareholders for ratification at the Company's upcoming Annual and Special Meeting. If the shareholders do not confirm the Rights Plan, the Rights Plan will terminate and cease to be effective at that time. The Rights Plan has been accepted by the TSX Venture Exchange and has been filed with provincial securities commissions.

## **Change in Accounting Policy**

### ***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.

### ***Conversion to International Financial Reporting Standards ("IFRS")***

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of June 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011.

The Company completed a preliminary IFRS transition assessment which highlighted several key areas of difference between existing Canadian GAAP and IFRS, specifically, presentation of financial statements, the treatment of asset retirement obligations, impairment of assets and share-based payments.

The Company developed an IFRS project plan assigning responsibilities and outlining the proposed timing of execution of key IFRS conversion projects. The Company's IFRS project plan stipulates several project phases. The first phase, including initial training and education for key finance staff, has been completed.

The next phase of the Company's IFRS project was the "impact assessment" phase, whereby the project team reviewed each of the significant areas of difference highlighted by the initial diagnostic. In this phase, the project team determined the potential qualitative differences between Canadian GAAP and IFRS and assessed the impact of these differences on the Company's accounting policies, information systems, internal controls over financial reporting and other business processes. To-date, the Company has identified the following key areas of potential difference with respect to the accounting for:

- Share-based payments – Canadian GAAP allows the preparer to choose from two options, namely a) treating all options granted at a particular date and with the same terms and conditions as one pool (pooling method) and b) treating options with different vesting dates as different grants (vesting method). The cost of such options is calculated according to Black-Scholes for both methods. For the pooling method, the total expense is amortized on a straight line basis over the longest vesting period of all of the options in the pool resulting in equal charges to income over the period. The vesting method looks at each vesting tranche and the expense associated with that particular vesting tranche and amortizes that in a straight line. This latter method front end loads the expense so that although available, this method is rarely used under Canadian GAAP. Under IFRS, the vesting method is the only method that may be used.
- Asset retirement obligation – Canadian GAAP requires that the future cost of asset retirement be discounted at the credit adjusted risk-free interest rate with the asset book value being increased by the discounted amount and a liability being recognized in the same amount. The credit adjusted risk-free interest rate is defined as the rate of interest on monetary assets that are essentially free of default risk, adjusted for the effect of the entity's credit standing. On the asset side, the discounted asset retirement amount is amortized over the life of the asset whereas the liability is increased or accreted at the credit adjusted risk-free rate so that, at the end of the project's life, the full liability for the rehabilitation work will have been recorded. Unless the anticipated cost of the asset retirement obligation changes due to more stringent requirements, improved technology or for other reasons, no further adjustment is made to the original asset retirement obligation except for ongoing amortization (asset side) or accretion (liability side).
- In contrast, IFRS requires that the asset retirement obligation must be calculated using a discount rate equal to the pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Further, re-measurement must be made at the end of each reporting period to give a best estimate of the obligation and includes recalculating using the discount rate at the balance sheet date. As interest rates fluctuate, the discounted asset retirement obligation will also change causing changes to both the amortization and accretion expense. The effect of these changes may be material. Re-measurement for changes in the interest rate is not a requirement of Canadian GAAP.
- Impairment of assets – IAS 36, Impairment of Assets ("IAS 36"), uses a one-step approach for testing and measuring asset impairments with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent write-downs in the carrying value of assets under IFRS since asset carrying values that were previously supported under Canadian GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has been reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses.
- Mineral property costs – The Company has evaluated its existing policy for exploration cost accounting and does not expect any of the differences between IFRS and Canadian GAAP to impact its accounting for exploration costs.

On changing to IFRS, the Company will be eligible to make elections under the standard for the transition to IFRS, namely IFRS 1 – First Time Adoption. In some cases, the changes that would otherwise have been retrospective are, with election, applicable from the date of transition and prospectively; in a number of other cases, there is a mandatory approach to deal with the effects of the changes. Where an election is available, the Company is currently reviewing the selection of a suitable option. Typically, IFRS requires significantly more disclosure than is the case under current Canadian GAAP, particularly with respect to the notes to the financial statements. The Company, as part of the Plan, will be reviewing its data collection and reporting systems to ensure that the requisite information will be available and reliable.

The Company has completed a preliminary review of the above areas of potential difference on its information systems and is planning a number of new software implementations as a result. The above changes are not expected to have a significant impact on the Company's information and data systems, business processes, internal controls over financial reporting, disclosure controls and business activities.

The Company has completed the majority of its impact assessment phase. The next project phase consists of developing new IFRS-compliant accounting policies, implementation of these policies, calculating the Company's opening balance sheet under IFRS as at June 1, 2010, related testing and additional training as required. The Company expects to have developed new IFRS-compliant accounting policies and calculated its opening balance sheet under IFRS by the end of its fiscal quarter ending August 31, 2011.

### **Financial Instruments**

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

### **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 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 \$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 Argentine Peso ("Peso"). A 10% fluctuation in the U.S. \$ and the 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.

### ***Forward Looking Statements***

Information set forth in this MD&A may involve forward-looking statements under applicable securities laws. Forward-looking statements are statements that relate to future, not past, events. In this context, forward-looking statements often address expected future business and financial performance, and often contain words such as "anticipate", "believe", "plan", "estimate", "expect", and "intend", statements that an action or event "may", "might", "could", "should", or "will" be taken or occur, or other similar expressions. All statements, other than statements of historical fact, included herein including, without limitation; statements about the size and timing of future exploration on and the development of the Company's properties are forward-looking statements. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements, or other future events, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following risks: the need for additional financing; operational risks associated with mineral exploration; fluctuations in commodity prices; title matters; environmental liability claims and insurance; reliance on key personnel; the potential for conflicts of interest among certain officers, directors or promoters with certain other projects; the volatility of the Company's common share price and volume and other reports and filings with the TSX Venture Exchange and applicable Canadian securities regulations. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date that statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable securities laws. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies the Company is bound. Investors are cautioned against attributing undue certainty to forward-looking statements.

The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents filed on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)).

## CORPORATE INFORMATION

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DAVID RAFFA  
Director  
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### AUDITOR

Davidson & Company  
Chartered Accountants  
Vancouver, BC, Canada

### CAPITALIZATION

Authorized:  
Unlimited common shares  
Issued as at September 22, 2011: 50,913,131

### FINANCIAL INSTITUTION

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### STOCK EXCHANGE

Listed: TSX Venture Exchange  
Symbol: MDR-V