



OROSUR MINING

FINANCIAL REPORT 2010

SAN GREGORIO

KOMATSU

KOMATSU

404



MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Description Of Business	6
2. Key Results	6
3. Outlook and Strategy	6
4. Fortune Valley Acquisition	7
5. Subsequent Events	7
6. Overview Of Financial Results	8
7. Financial Position	13
8. Quarterly Results	16
9. Risks and Uncertainties	17
10. Critical Accounting Estimates and Assumptions	18
11. New Accounting Policies	19
12. Disclosure Controls and Procedures and Internal Controls Over Financial Reporting	19
13. Non Gaap Measures	20
14. International Financial Reporting Standards	20
15. Forward Looking Statements	21

CONSOLIDATED FINANCIAL STATEMENTS

Management Report	22
Auditors' Report	23
Consolidated Balance Sheets	24
Consolidated Statements of Operations, Comprehensive Income and Retained Earnings	25
Consolidated Statements of Cash Flows	26
Consolidated Statements of Changes in Shareholders' Equity	27
Notes to Consolidated Financial Statements	28



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended 31 May 2010

(All dollar amounts are expressed in thousands of United States dollars unless otherwise stated)

Management's Discussion and Analysis ("MD&A") provides a detailed discussion of Orosur Mining Inc. ("the Company") financial and operating results for the year ended May 31, 2010, with comparisons to the previous years.

This MD&A accompanies, and should be read in conjunction with, the audited consolidated financial statements and accompanying notes of the Company for the two years ended May 31, 2010 and May 31, 2009. Additional information relating to the Company, including press releases, have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online at www.sedar.com or on the Company's website at www.orosur.ca. The Company's financial statements and the financial data presented in this document have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A is effective as of August 10, 2010.

1. Description of Business

Orosur Mining Inc is a gold producer and exploration company incorporated in Canada and operating in Uruguay and Chile. The Company's common shares are listed on the Toronto Venture Stock Exchange (symbol OMI) and the London Alternative Investment Market (symbol OMI).

In Uruguay the Company operates the San Gregorio gold operations, the only producing gold mine in the country, in the northern Department of Rivera. It has been exploring in Uruguay since 1996 and acquired the San Gregorio operation in October 2003. The Company is currently completing feasibility work to commence underground operations at the Arenal Deeps deposit with the objective of extending mine life at San Gregorio and open the potential for further underground development on existing resources and new discoveries in the rest of the San Gregorio district. The Company also has strategic land holdings throughout Uruguay and has active near mine and regional exploration programmes focused on increasing gold reserves.

In Chile, the Company has optioned the Pantanillo property from Anglo American, located in the Maricunga Belt, and is in the process to define a mineral resource compliant to international standards, with a medium term objective to develop a second producing asset. The Company also has an active exploration programme on the Anillo property, optioned from CODELCO (Chile's national mining company), and located close to Antofagasta, in Region II, Northern Chile.

2. Key Results

Key results for the year ended May 31, 2010 are:

- Production for the year was 56,050 ounces of gold. Ore processed for the year was 1,531,476 tonnes at a gold grade of 1.22 g/t with recovery averaging 93.4%. The production was in line with the Company's revised production forecast provided in January 2010 of between 55,000 and 57,500 ounces of gold for the year.
- Cash costs per ounce of gold for the year were \$827 which is in line with the forecasted \$825. In the last quarter, cash costs were down to \$629 compared to \$702 for same quarter last year. The reduction in cash costs per ounce is mainly due to high grade ore mined from Ombú pit, during the quarter. The grade processed in the last quarter was 1.39 g/t Au while the average for the year was 1.22 g/t Au.
- The realized gold price was \$1,065 per ounce for the year compared to \$841 per ounce last year.
- The after-tax profit for the year is \$1,401 compared to a loss of \$14,355 in the prior year. Higher prices compensated for lower production, with lower costs and depreciation generated a profit for the year.

- Cash flow generated by operations for the year was \$9,021, and the Company's cash position at the end of the year was \$8,691, with net working capital (current assets less current liabilities including cash) of \$18,823. The Company invested \$6,459 in capital and \$8,785 in exploration for the year compared to \$5,472 and \$10,106 in the year before.

3. Outlook and Strategy

- The Company's forecast production for the 2011 financial year is 55,000 ounces of gold at a cash cost per ounce of approximately \$US 825. Variations in production and costs between quarters will occur as the mine plan is made up of different pits at different grades and stages of stripping.
- The Company's medium term objective is to grow its gold production profile in South America. The Company currently has one producing asset, San Gregorio, and it is mining from open pits with approximately three years of remaining mine life.
- The Company is currently completing feasibility work to commence underground operations at the Arenal Deeps deposit, with the objective of extending mine life, increasing grade and therefore reducing cash costs. AMEC is completing this feasibility study for Arenal Deeps. The updated Arenal Deeps resource estimate was published in March 2010 with a measured and indicated resource grade of 3.61 g/t Au using a 1.5 Au g/t cutoff and resulting in an overall measured and indicated ounces at 249,000 oz.
- OMI is also focused on a planned exploration and development program at Pantanillo and on an exploration program at Anillo in Chile, following the acquisition of Fortune Valley. A 43-101 compliant report for Pantanillo will be completed by AMEC and its results published during August 2010. Development work has commenced with scoping studies expected to be completed in the second half of fiscal 2011.

4. Fortune Valley Acquisition

In January 2010 the Company announced the completion of the Plan of Arrangement pursuant to which the Company acquired all of the issued and outstanding shares of Fortune Valley Resources Inc. ("Fortune Valley"), a Canadian listed company, in consideration of 0.4534 of the Company's common share plus CAD\$0.001 in cash for each common share of Fortune Valley.

Pursuant to the Agreement, the Company acquired 34,772,025 issued and outstanding common shares of Fortune Valley (representing 100% of Fortune Valley's outstanding common shares) in consideration for the issuance of 15,765,638 common shares of the Company and cash consideration in the aggregate amount of CAD\$34,772. In addition, holders of Fortune Valley options were entitled to receive 1,008,815 options to purchase the Company's shares in exchange of 2,225,000 Fortune Valley options, on the same terms and conditions as were applicable before the transactions according to the Stock Option Plan of Fortune Valley, and at an strike price equal the original granted price multiplied by the exchange share ratio of 0.4534. The 15,765,638 new common shares in the Company issued pursuant to the Arrangement were admitted to trading on AIM and on the TSX Venture Exchange.

5. Subsequent Events

On June 2010, the Company entered into an option agreement with Minerales Cala S.A. ("Cala") which provides Cala the right to earn up to a 80% interest in the Company's Chamizo gold project in Southern Uruguay. Cala is committed to spend \$150 in exploration work within a period of twenty four months to earn 51% interest in the project. Subsequently, Cala will have the right to earn a further 29% by incurring a further \$350 in exploration expenditure. After Cala has completed \$500 in expenditure and consequently has earned 80% interest, the Company will have the option to contribute its 20% proportionate share of expenditure. Should the Company choose not to contribute, dilution shall apply and if the Company's interest falls below 10%, its interest will convert to a Net Smelter Royalty of 2%.

On August 4, 2010, the Company entered into a Definitive Option and Joint Venture Agreement with Gladiator Resources Limited (GLA) which provides GLA the right to earn up to an 80% interest in OMI's Iron Ore, Manganese Ore and Base Metals Prospects in the Isla Cristalina Belt in Uruguay.

The Definitive Agreement has now been executed and accordingly GLA will issue fully paid shares with a market value of AUD100,000 to OMI calculated using the average trading price of GLA shares over the preceding five day trading period. The Definitive Agreement with OMI provides for GLA to earn a 20% interest in the Assets by expending US\$1 million on work programs. GLA may at its discretion earn a further 31% by expending a further US\$4 million taking its interest to 51%. A further 29% may be earned by GLA taking its interest up to 80% by producing a bankable feasibility study on or before 31 December 2015. The Agreement provides for OMI to retain the mineral rights to gold, silver and diamonds within the project area.

6. Overview of Financial Results

6.1 Profit (loss) before taxes

For financial year ended May 31 2010, the Company reported a net profit of \$1,401 compared to a net loss of \$14,355 for the previous year.

Higher prices combined with lower costs during 2010 generated a contribution margin similar to 2009. Lower depreciation expense in 2010 resulted in a profit after tax of \$1,401 for 2010.

Table 1 - Profit (loss) breakdown

	REF.	2010	2009
		\$000's	\$000's
Revenue	6.2	59,613	63,376
Operating expenses	6.4	(46,949)	(51,354)
Contribution margin		12,664	12,022
Amortisation	6.5	(9,562)	(19,926)
Operating profit (loss)		3,102	(7,904)
Fair value of derivatives	7.5	355	(464)
Exploration written off	7.3	(614)	(2,694)
Corporate and other	6.6	(2,745)	(3,972)
Profit (loss) before income taxes		98	(15,034)
Income tax recovery	6.7	1,303	679
Profit (loss)		1,401	(14,355)
Basic earnings (loss) per share		\$0.03	\$(0.29)

6.2 Revenue

Revenues include gold and silver sales, as well as export cost refunds granted by the Government of Uruguay for exports as shown opposite in Table 2. The Export refunds benefit was cancelled by the Uruguayan government on October 1, 2009.

Total sales of gold for the 2010 financial year were \$58,484 with 54,904 ounces of gold sold at an average price of \$1,065 per ounce. This compares to \$59,936 for the 2009 financial year with 71,291 ounces of gold sold at an average price of \$841 per ounce.

Table 2 - Sales composition

2010	\$000's	Oz	\$PER OZ
Gold	58,484	54,904	1,065
Silver	833	50,648	16
Export refund	296		
Total Sales	59,613		

2009	\$000's	Oz	\$PER OZ
Gold	59,936	71,291	841
Silver	2,225	163,631	14
Export refund	1,215		
Total Sales	63,376		

The lower amount of gold sold on a year to year basis, as a consequence of lower production, was partially offset by the gold price increase. The decrease in silver sales is due the lower silver content of the pits from which the Company has been producing in the current year.

6.3 Production statistics

During the financial year ended May 31, 2010, 11,885,000 tonnes were mined in the Company's open pit operation at San Gregorio (2009 - 12,823,000), 10,007,000 tonnes of waste (2009 - 10,874,000) and 1,878,000 tonnes of ore (2009 - 1,949,000) with an average grade of 1.06 g/t (2009 - 1.44). The average strip ratio for the year was 5.3 tonnes of ore to 1 tonne of waste (2009: 5.6).

For the 2009 financial year, 64% of ore mined was sourced from Arenal pit, which was exhausted in April 2009. For the current year's production, ore was sourced from different pits and veins of different structural characteristics and grades. Key production statistics are provided in Table 3.

Table 3 - Key production statistics

	2010	2009
Ore mined (tonnes)	1,878,004	1,949,103
Grade mined (g/t Au)	1.06	1.44
Ore processed (tonnes)	1,531,476	1,361,617
Grade processed (g/t Au)	1.22	1.72
Recovery	93.4%	92.7%
Gold produced (ounces)	56,050	70,147

Table 4 - Quarterly production statistics

2010	Q1	Q2	Q3	Q4	TOTAL
Ore processed (tonnes)	384,195	362,416	389,139	395,726	1,531,476
Grade processed (g/t Au)	1.15	1.25	1.09	1.39	1.22
Recovery	92.9%	93.6%	93.5%	93.6%	93.4%
Gold produced (ounces)	13,173	13,580	12,742	16,555	56,050

2009	Q1	Q2	Q3	Q4	TOTAL
Ore processed (tonnes)	335,832	303,740	332,704	389,341	1,361,617
Grade processed (g/t Au)	1.67	1.72	1.96	1.58	1.72
Recovery	91.4%	94.2%	92.5%	92.8%	92.7
Gold produced (ounces)	16,439	15,837	19,371	18,500	70,147

6.4 Production costs

Total operating costs were \$46,949 for year ended May 31, 2010 compared to \$51,354 for the previous year. Cash cost per ounce was \$827 for the current fiscal year compared to \$705 for the previous year. Table 5 reconciles operating costs to cash cost per ounce.

Table 5 - Reconciliation of Operating costs to cash cost per ounce

	2010	2009
	\$(000's)	\$(000's)
Operating expenses	46,949	51,354
Less cost excluded for		
Movement in non ore inventories	751	(851)
Costs not related to production	(434)	(164)
Sub total	47,266	50,339
Adjustments for		
Deferred stripping included in depreciation	0	2,349
Capital tax on production assets	234	301
Export refund and silver credit	(1,129)	(3,440)
Total cash costs	46,371	49,549
Gold recovered in ounces	56,050	70,147
Total cash costs per ounce	827	705

Cash cost per ounce is a non-GAAP measure which is explained in reference 13 of this MD&A document. Cash cost increased on a year to year basis as a consequence of lower gold production, lower silver by-product credits and the elimination of the export refund.

While grade processed year on year was reduced by 30%, cash cost reflects a lower percentage increase (17%) as a consequence of the ongoing cost reduction efforts undertaken since January 2009.

6.5 Amortization and depletion

Amortization and depletion expense was \$9,562 for financial year ended May 31, 2010 compared to \$19,926 for previous year. Depreciation includes straight line depreciation of fixed assets and the depreciation of mine properties based on contained ounces of gold in ore mined.

Fixed assets depreciation is reducing, as most of the initial investment to start exploiting the Arenal pit reached full depreciation in 2009 when Arenal stopped production and new investments to continue production in satellite pits and veins do not offset that reduction. The same applies to the Arenal mine properties.

Depreciation in 2009 also included previously accumulated deferred stripping costs in Arenal. The Company has adopted EIC 160 under Canadian GAAP which requires that costs associated with the removal of overburden and other mine waste materials incurred in the production phase of operations be charged to income in the period they are incurred. The new policy was adopted effective June 1, 2007 and applied on a prospective basis. However, previously deferred waste removal costs for Arenal pit have been depreciated over the remaining reserves accessed by the stripping activities using the units of production method.

Table 6 - Depreciation composition

	2010	2009
	\$000's	\$000's
Fixed Assets	4,334	5,903
Arenal mine properties	0	5,620
Other mine properties	5,228	5,119
Deferred stripping	0	2,349
Asset retirement obligation	0	935
Total depreciation	9,562	19,926

6.6 Other revenues and expenses

Other revenues and expenses include corporate overhead costs, stock based compensation expense, net interest and bank commissions, capital tax, foreign exchange gains and losses, sales from asset disposition and other items. A breakdown of such revenues and expenses is shown in Table 7.

Table 7 - Other revenues and expenses composition

	2010	2009
	\$000's	\$000's
Corporate overheads	3,039	3,415
Stock based compensation	407	345
Foreign exchange loss (gain)	116	(48)
Net interest loss (gain)	(69)	(27)
Capital tax	554	394
Other gains	(1,302)	(107)
Total other revenues and costs	2,745	3,972

Corporate overheads are comprehensive of corporate administration expenses in Canada, Uruguay and Chile, holding structures costs, listing and regulatory expenses, director's fees and the executive salaries and benefits portion related to their corporate work. Executive salaries and benefits related to site work are shown under operating expenses. Reduction on a year on year basis is explained by the cost cutting program implemented since the last quarter of the previous financial year.

Capital tax is payable under Uruguayan tax law and applied at a 1.5% rate on the amounts of certain assets less certain specific liabilities measured at financial year end in Uruguayan pesos.

During the month of February 2010, the Company completed the sale of the Montevideo's headquarter offices for total proceeds of \$2,300 and an associated written down value of \$1,176. The positive result is shown under "Other Gains". Rental cost for the new smaller premises and moving costs are included under "Corporate overheads".

6.7 Income tax

An income tax recovery of \$1,303 was recorded for the financial year ended May 31, 2010 compared to a recovery of \$679 for the previous year. The detailed comparison is shown in Table 8.

The composition of the future tax assets is shown in Table 9.

The property, plant and equipment and mine properties tax assets represent rights for future income tax deductions nominated in Uruguayan pesos and are subject to the appreciation or devaluation of the Uruguayan peso against the US dollar. Additionally, the value of the stockpile carried forward is, for tax purposes, fixed in Uruguayan pesos at the time stocks are being incorporated. The high appreciation of the Uruguayan peso against the US dollar during the year ended May 2010 (one US dollar equals UY\$19.6 at May 31, 2010 and UY\$23.4 at May 31, 2009) explains most of the increase of the future tax assets.

Table 8 - Income tax composition

	2010	2009
	\$000's	\$000's
Taxable income (loss) for the year	427	(7,764)
Long term tax liability	0	9,656
Taxable income	427	1,892
Tax rate	34%	34%
Income tax at Canadian rates	145	643
Effect lower effective tax rate	(38)	(170)
Current income tax loss for the year	107	473
Benefits not provisioned in previous year	(230)	(1,112)
Current income tax charge (provision)	(123)	(639)
Future tax effect	(1,180)	2,374
Long term tax liability reversal	0	(2,414)
Total future tax effect	(1,180)	(40)
Total income tax recovery	(1,303)	(679)

As a result of Fortune Valley acquisition, as referred in Note 4 of this MD&A document, the Company has recognized a future tax liability of \$1,774. This future tax liability relates to the difference in the unclaimed tax deductible costs of capital assets in Chile and the related accounting carrying value. The accounting carrying value is based on the fair value of net assets acquired in the acquisition. When the assets are amortized there will be an associated tax benefit for accounting purposes. The future tax liability is based on consolidated accounting values and any cash liability for income tax purposes is not triggered unless the underlying assets are sold.

Table 9 - Future tax assets composition

	2010	2009
	\$000's	\$000's
Property, plant and equipment and mineral properties	3,318	2,830
Fiscal losses	30	0
Other assets and liabilities	833	171
Future income tax asset	4,181	3,001

7. Financial Position

7.1 Cash and other liquid resources

At May 31, 2010, OMI had cash resources of \$8,691 compared to \$9,496 at 31 May 31, 2009. Cash decreased by \$805 during the financial year ended May 31, 2010 compared to a decrease of \$9,105 for the previous year.

Cash flow from operations includes the results from the San Gregorio operations less the cost of general and administrative expenses, interest and income taxes. Cost cutting efforts and the increase in gold price contributed to a moderate decrease in cash flow from operations.

Table 10 - Cash increase (decrease)

	REFERENCE	2010	2009
		\$000's	\$000's
Cash flow from operations before working capital investment		9,021	9,404
Working capital investment	7.2	2,654	(2,355)
Capital expenditure	7.3	(12,527)	(15,578)
Funding	7.4	47	(576)
Cash increase (decrease)		(805)	(9,105)

7.2 Working capital items

As shown in Table 11, there was a release of working capital of \$2,654 in 2010 when compared to an investment in working capital of \$2,355 in previous year, resulting net cash inflows from operations of \$11,675 and \$7,049 for the financial years 2010 and 2009 respectively.

Table 11 - Working capital investment

	2010	2009
	\$000's	\$000's
Cash flow from operations before working capital investment	9,021	9,404
Warehouse inventories	643	(790)
Stockpile	(340)	(953)
Other production inventories	(751)	850
Supplier's net of prepayments	2,518	(1,373)
Receivables and tax credits net of tax liabilities	584	(89)
Total working capital investment	2,654	(2,355)
Cashflow from operations after working capital investment	11,675	7,049

The increase in the balance of Suppliers is explained mainly by an outstanding liability with the Uruguayan Government for the mining royalty corresponding to calendar year 2009 for \$1,818. The Company is in discussions with the Government on the parameters to apply in the calculation. Additionally, the Company renegotiated and extended the credit terms with the main contractor.

The increase in the balance of receivables net of prepayments is due to advances made to partners in the Diamond and Iron ore farm outs while supporting them to commence operations in Uruguay and a delay by the Uruguay Tax Office in issuing VAT tax refunds.

7.3 Capital expenditure

Capital expenditure on property, plant and equipment and mineral properties was \$6,459 for the financial year ended May 31, 2010 compared to \$5,472 for previous year. This includes \$2,240 in rebuilds for heavy mobile mining equipment, \$1,082 in pre-stripping activities to access veins ore bodies, \$1,342 to increase current tailings dam facilities and \$597 in Arenal Deeps development studies.

Cash exploration expenditure was \$8,785 for the financial year ended May 31, 2010 compared to \$10,106 for the previous year. See Table 12 for details.

During the current financial year, the Company also completed the acquisition of Fortune Valley in Chile as explained in note 4 of this MD&A document. Except for a minimum cash consideration of \$34 and cash transaction costs, Fortune Valley was acquired through an exchange of shares and options at an exchange rate of 0.4534 of the Company's share for each Fortune Valley share plus the assumed net liabilities outstanding in Fortune Valley.

During the financial year ended May 31, 2010 \$614 of expenses were written off compared to \$2,694 in previous years. Of this total, \$142 are related to expenses incurred during the year in the evaluation for the acquisition of properties throughout South America, \$67 in severance payments due to the reduction of the exploration staff in Uruguay, and other \$405 in minor projects in Uruguay where no substantive expenditure for further exploration and evaluation activities are budgeted or planned.

Capitalized exploration and evaluation expenditure for \$6,224 were reclassified to mineral properties as these expenditures related to areas in which a mineral resource was determined. This amount includes \$4,117 for Arenal Deeps resource estimations, plus expenditure incurred in resource determination for the Santa Teresa, Zapucay, Argentinita, Castrillon, Sobresaliente and minor veins deposits. This compares to \$3,923 for the previous year.

Table 12 - Exploration expenditure by areas

PROJECT AREA	URUGUAY	URUGUAY	CHILE	OTHER ACQUISITIONS	TOTAL
	ISLA CRISTALINA	OTHER			
Initial Bal. May 2009	2,937	9,500	0	0	12,437
Cash expenditure	5,636	497	(*)2,510	142	8,785
Non cash expenditure	0	0	10,466	0	10,466
Transfer to Mine properties	(6,224)	0	0	0	(6,224)
Write off	(242)	(230)	0	(142)	(614)
Final balance - May 2010	2,107	9,767	12,976	0	24,850

(*) Includes Fortune Valley acquisition cash consideration and transaction costs.

7.4 Funding

During the financial year ended May 31, 2010, 362,720 options were exercised and converted into ordinary shares providing cash inflows of \$50 compared to no options exercises during the previous year. All these options were options granted to Fortune Valley directors and employees pursuant to the acquisition of Fortune Valley by OMI.

As at May 31, 2010, the Company had 2,749,850 outstanding stock options at a weighted average exercise price of CDN\$2.04, of which 1,882,517 were vested at a weighted average exercise price of CDN\$2.52. The decline in the Company's stock price left all outstanding employee options "out of the money". This compares to the previous year in which 3,172,250 options remained outstanding at a weighted average exercise price of CDN\$2.98 out of which 1,818,750 were vested at a weighted average exercise price of CDN\$3.57.

During the current and previous financial year no dividends were declared or paid.

As explained in note 4 of this MD&A document, and as part of the Fortune Valley acquisition, the Company issued 15,765,638 common shares and 1,008,915 stock options at a weighted average price of CDN\$0.82.

7.5 Financial instruments

OMI does not enter into financial instruments for trading or speculative purposes. The level of derivatives contracts the Company has entered into in the past has been consistent with forecast production.

During the first quarter of the current financial year, the Company delivered into a hedge 2,577 ounces of gold at a forward price of \$US796.25 to settle a 45,000 hedged ounces contract committed in the previous year.

During the last quarter of the current financial year, the Company purchased put options on 10,000 ounces of gold for the period ending May 2010 at a strike price of \$1,065 per ounce, \$50 below the spot price at the time that the options were purchased for a premium of \$109 (or \$11 per ounce hedged). During May 2010, the Company purchased 14,000 put options for the quarter ending 31 August 2010 at a strike price of \$1,065 per ounce, \$75 below the spot price at the time that the options were purchased for a premium of \$212 (or \$15 per ounce hedged).

7.6 Contractual obligations and commitments

The Company's contractual obligations and commitments are as follows

	TOTAL	LESS THAN 1 YEAR	1-2 YEARS	2-3 YEARS	3-4 YEARS	MORE THAN 4 YEARS
Bank debt	33	19	14	0	0	0
Asset Retirement Obligations	2,954	390	1,119	654	128	663
Total	2,987	409	1,133	654	128	663

Commitments derived from exploration farm in and out and acquisitions agreements are disclosed in Note 9 of our Financial Statements

Uruguayan mining and environmental legislation requires environmental obligations to be supported by guarantees. As a result, a rehabilitation guarantee letter of credit of \$1,500 has been provided by HSBC Bank Uruguayan local branch.

8. Quarterly Results

	QTR 1 AUG 2008	QTR 2 NOV 2008	QTR 3 FEB 2009	QTR 4 MAY 2009	QTR 1 AUG 2009	QTR 2 NOV 2009	QTR 3 FEB 2010	QTR 4 MAY 2010
Gold sold (ounces)	18,182	13,754	20,002	19,353	13,188	13,678	11,662	16,376
Average sales price (\$/oz)	895	796	822	841	912	1,065	1,110	1,157
Cash operating cost (\$/oz)	792	811	547	702	880	871	984	629
Operating revenues	17,721	11,659	17,125	16,871	12,498	14,811	13,152	19,152
Operating expenses	(14,803)	(12,351)	(11,071)	(13,129)	(11,861)	(12,355)	(12,173)	(10,560)
Contribution Margin	2,918	(692)	6,054	3,742	637	2,456	979	8,592
Administration expenses	(1,234)	(1,315)	(860)	(745)	(838)	(1,074)	(1,003)	(1,085)
Amortization and depletion	(3,000)	(5,971)	(4,600)	(6,355)	(2,593)	(3,044)	(2,228)	(1,697)
Fair value of derivatives	(1,528)	733	(901)	1,232	464	0	0	(109)
Exploration write off	0	0	(775)	(1,919)	0	(371)	(11)	(232)
Interest expense and debt accretion	(75)	(63)	(80)	(25)	(71)	(76)	(43)	(59)
Foreign exchange difference	(152)	176	13	11	(17)	6	(73)	(32)
Interest earned and other income (expenses)	192	85	32	68	252	1,199	33	136
Income Tax	25	(860)	19	1,495	8	1,580	(574)	289
Net income (loss) for the period	(2,854)	(7,907)	(1,098)	(2,496)	(2,158)	676	(2,920)	5,803
Basic earnings per share	(0.06)	(0.16)	(0.02)	(0.05)	(0.08)	0.014	(0.05)	0.09
Cash flow from (used in) operations	1,152	(1,954)	4,091	3,760	2,659	2,125	1,108	5,783
Cash from (used for) financing	(448)	(47)	(46)	(35)	(21)	(9)	4	76
Cash invested	(6,954)	(3,911)	(2,433)	(2,280)	(3,976)	(883)	(3,383)	(4,285)
Cash on hand	12,351	6,439	8,051	9,496	8,158	9,391	7,150	8,691
Total Assets	79,155	71,655	70,742	63,516	62,665	65,044	70,857	78,331
Shareholders Equity	63,742	56,084	54,936	52,549	50,485	51,371	56,176	62,060

g. Risks and Uncertainties

The Company's net earnings in the near-term are affected principally by its mining operations and, in the longer term, will be affected primarily by the success or failure of its exploration and development activities. The Board recognizes that the exploration and development of natural resources is a speculative activity that involves a large numbers of uncertainties, and a degree of financial risk. Accordingly the Board considers the risks to which the Corporation is exposed as part of its regular operations, and keeps these under review.

The principal risks are considered to be those set out below.

Sensitivity to commodity prices and foreign exchange rates

The Company's revenues, net earnings and cash flow from operations are affected materially by changes in the price of gold. Gold has historically been subject to large price fluctuations, and is affected by factors which are unpredictable, including international economic and political conditions, speculative activities, the relative exchange rate of the US dollar with other currencies, inflation, global and regional levels of supply and demand and the gold inventory levels maintained by producers and others.

The Company's gold sales are priced in US dollars while its operating costs are predominantly incurred in US dollars, Canadian dollars and Uruguayan pesos. The Company has financial exposure to foreign exchange fluctuations in the Uruguayan peso and the Canadian dollar relative to the US dollar.

Key Personnel Risks

Recruiting and retaining qualified personnel is critical to The Company's success. The number of skilled mining and exploration professionals in Uruguay is limited and competition for such persons is intense in the global mining industry.

As the Company's business activity continues to grow, it will be required to hire additional personnel and retain the services of key personnel. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

Exploration, Mining and Operational Risks

The Company's longer term strategy depends to a certain extent on its ability to find commercial quantities of minerals, and to obtain and retain appropriate access to these minerals. The Board cannot guarantee that it will be able to identify appropriate properties, or negotiate acquisitions, on favorable terms.

The Company currently has one producing asset, the San Gregorio project. As more of its projects mature, the Board expects that more projects will develop into producing assets. In common with all mining operations, there is uncertainty, and therefore risk, associated with operating parameters and costs. Whilst costs can be budgeted with a reasonable degree of confidence, operating parameters can be difficult to predict and are often affected by factors outside the Group's control. In addition, other risks, including cuts in electricity supply, fuel supply shortages, industrial accidents, technical failures, labour disputes and environmental hazards are also beyond the Group's control. The nature of resource and reserve quantification studies means that there can be no guarantee that estimates of quantities and grades of minerals will be available to extract. The figures for reserves and resources estimates are determined in accordance with National Instrument 43-101, issued by the Canadian Securities Administrators. This National Instrument lays out the standards of disclosure for mineral projects including rules relating to the determination of mineral reserves and resources

The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate or adequately mitigate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. There is no assurance that commercial quantities of ore will be discovered on any of the Company's exploration properties. There is no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought

into commercial production. In addition, assuming discovery of a commercial ore-body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. The Company's business activities are also affected to varying degrees by government regulations respecting, among other things, tax, royalties, utilities service supply, mining legislation and environmental legislation changes.

Title Risks

Individual titles expire from time to time and the Company manages the process of retaining its rights by re-application or conversion to other forms of title relevant to each stage of development. The process of re-application involves some risk however, as released titles must fall open before they can be re-applied for.

There can be no guarantee that the State in the jurisdictions in which the Company operates will continue to grant or respect mining titles, and that the titles of the properties will not be challenged or negated for political or legal reasons.

Political and Economic Risks

Political conditions in the countries where the Company operates are stable. Changes may however occur in political, fiscal and legal systems that might affect the ownership or operation of the Group's interests, including inter alia, changes in exchange control regulations, expropriation of mining rights, changes of government and in legislative and regulatory regimes.

10. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may vary from related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

Economic lives of mining assets and recoverable value

The economic lives of the Company's mining operation and development assets is based upon the individual mine's mineral reserves. The Company's resources and reserves are calculated in accordance with mining standards and in compliance with NI 43-101 requirements. The Company reviews and re-evaluates the estimated future discounted net cash flows of its mines and development properties on a regular basis, to ensure that they exceed the carrying value for each property. These calculations rely on estimated reserves and/or resources, estimated future commodity price and production cost.

Inventory

The value assigned to ore stockpiles, in process inventories and finished metal inventories are based on estimated volumes and grades. Volume and grade estimates are made relying on assays and other sampling tests.

Asset retirement obligation

The fair value of the liability is determined based on the net present value of estimated future costs estimated by management based on feasibility and engineering studies on a site by site basis. The discounted value of these asset retirement obligations was as at May 31, 2010 \$2,954 and is included in the mine closure and site restoration liability. While care was taken to estimate the retirement obligations, these amounts are estimates of expenditures that are not due until future years;

Share based compensation

The Company has chosen to use the fair value method to account for stock-based employee compensation plans. The calculation of this benefit relies on estimates of the anticipated life of the option and the volatility of the company's share price;

Net future income tax assets and liabilities

Significant judgment is required in determining the worldwide provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences may impact the carrying amount of future income taxes;

Exploration and evaluation expenditure

The recoverability of amounts shown for capitalized exploration and evaluation expenditure is dependant upon the discovery of economically recoverable reserves.

11. New Accounting Policies

The Canadian Institute of Chartered Accountants (CICA) has issued the following standards which may affect the financial position, results of operations and disclosures of the Company for interim and annual periods beginning on the periods indicated:

- (a) Section 1582, Business Combinations, replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business combinations. This section applies to fiscal years beginning on or after January 1, 2011. The Company will assess the impact of this section prior to implementation.
- (b) Section 1601, Consolidated financial statements and Section 1602 Non Controlling interests together replace Section 1600 Consolidated financial statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These section apply to financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will assess the impact of these sections prior to implementation.
- (c) Section 3862, Financial Instruments – Disclosures, was amended during 2009 to require enhanced disclosures about the relative reliability of the data or “inputs” that an entity uses to measure the fair values of its financial instruments. The new requirements include the classification of financial instruments within a three-level hierarchy that prioritizes the inputs to fair value measurement according to their significance. In addition, the amendments require enhanced disclosures regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. Comparative information is not required in the year of adoption. The impact of these amendments is disclosed in note 15 (h) of the financial statements.

12. Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Corporation’s President and Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company’s system of disclosure controls and procedures includes, but is not limited to, our Continuous Disclosure Policy Procedure, our Code of Business Conduct and Ethics, our Insider Trading Policy and Share Trading Code and Price Sensitive Information Policy, our Whistleblower Policy, Release of Public Information Policy and the effective functioning of the Audit Committee and Board of Directors.

As at the end of the period covered by this MD&A, management of the Corporation, with the participation of the President and CEO and the CFO, does not expect that the Corporation’s Disclosure Controls will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud and error, if any, within the Corporation have been detected.

As at the end of the period covered by this MD&A, management of the Corporation, with the participation of the CEO and the CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the Corporation's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the President and CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

Multilateral Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the Company. For the Corporation, that the ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP, and that the Corporation has disclosed any changes in its ICFR during its most recent interim period that has materially affected, or is reasonably likely to materially affect its financial reporting.

As discussed above, the inherent limitations in all controls systems are such that they can provide only reasonable, not absolute, assurance that all controls issues and instances of fraud or error, if any, within the Corporation have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

During the period covered by this MD&A, the Corporation's senior management, including CEO and CFO, have evaluated the design and operating effectiveness of the Corporation's ICFR and confirm that they have been designed effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There were no changes to the ICFR that have occurred during the quarter which materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

13. Non Gaap Measures

Cash flow from operations, contribution margin and cash cost per ounce are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non GAAP measures. Therefore these measures may not be comparable to similar measures presented by other issuers. These measures have been presented in this MD&A as additional information regarding the Company's financial performance and financial position. Cash flow from operations is calculated by adding back non-cash items to net earnings. Contribution margin has been calculated by deducting operating expenses from sales. Operating expenses include movements in inventories but exclude operating amortization and depletion. Cash cost per ounce are determined according to the Gold Institute Standard and consist of site costs for all mining, processing, administration, royalties, refining charges, silver credits and inventory adjustments relating to metal production. Capital expenditure, depletion and amortization, corporate costs and financing costs are not included. Cash costs are total cash costs divided by gold ounces produce.

14. International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (“AcSB”) announced that changeover for publicly-listed companies to adopt IFRS, replacing Canadian GAAP, will be effective for interim and annual financial statements of the Company relating to fiscal years beginning on or after June 1, 2011. The transition will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended May 31, 2011.

During calendar 2010, the Company plans to undertake an IFRS diagnostic study with a view to assessing the main areas expected to be impacted through the transition to IFRS on the Company’s accounting policies and to establish a project plan to implement IFRS. A number of key accounting areas where IFRS differs from current accounting policies and accounting alternatives in those and other key accounting areas will be identified and reviewed. In 2011, the Company will evaluate the alternatives and analyze the impact upon the implementation of IFRS, calculate the IFRS transition adjustments that impact the financial statements as well as assessing the disclosure requirements of IFRS on the Company’s financial statements.

The IFRS diagnostic study will also identify key system, staffing, and business process areas that will be addressed as part of the conversion project. These include: the development of an accounting policy manual that defines the Company’s IFRS accounting policies, identification of the significant financial data required from the Company’s financial systems in order to define the transition adjustments and produce IFRS financial statements on an on-going basis, possible system modifications as well as change analysis and maintenance of effective disclosure controls and controls over financial reporting throughout the IFRS transition period.

A high-level assessment has already been conducted and a number of key accounting areas where IFRS differs from current accounting policies have been identified and the Company is planning to analyze them further as part of the diagnostic exercise during 2010. At this stage the impact on the financial position and future results of the conversion has not yet been reliably determined.

15. Forward Looking Statements

Certain information contained in this Management Discussion and Analysis constitutes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and forward looking information under applicable Canadian Securities Legislation. Such forward-looking statements or information, included but not limited to those with respect to prices for gold, estimated future production, estimated costs of production, the Company’s hedging policy involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements or information. Important factors that could cause actual results to differ materially from those in the forward looking statements contained herein include among others, gold price, weather, exploration results, development and mining activities, geotechnical assumptions, environmental approvals and the availability of technical personnel.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Orosur Mining Inc. and the information contained in the annual report have been prepared by and are the responsibility of the Company's management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and, where appropriate, reflect management's best estimates and judgments based on currently available information. Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is reliable.

The Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders, conduct an audit in accordance with Canadian generally accepted auditing standards. The Audit Committee of the Company meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to approval of the consolidated financial statements by the Board of Directors.

Ignacio Salazar
Chief Financial Officer

David Fowler
Chief Executive Officer

10 August 2010

AUDITORS' REPORT

To the Shareholders of Orosur Mining Inc.,

We have audited the consolidated balance sheets of Orosur Mining Inc. as at May 31, 2010 and 2009 and the consolidated statements of operations, comprehensive income (loss) and retained earnings, cash flows and changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario, Canada

August 12, 2010

CONSOLIDATED BALANCE SHEETS

Thousands of United States Dollars, except where indicated

As at May 31	2010	2009
Assets		
Cash	8,691	9,496
Accounts receivable (Note 6)	2,351	2,899
Inventories (Note 7)	18,090	17,642
Prepaid expenses	1,220	915
Total current assets	30,352	30,952
Property, plant and equipment and mineral properties (Note 8)	18,757	16,953
Deferred exploration (Note 9)	24,850	12,437
Future income tax assets (Note 13)	4,181	3,001
Restricted cash	191	173
Total non current assets	47,979	32,564
Total assets	78,331	63,516
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	11,510	7,604
Fair value of derivatives	0	464
Current portion of long term debt	19	37
Total current liabilities	11,529	8,105
Long term debt	14	0
Future income tax liability (Note 13)	1,774	0
Asset retirement obligation (Note 10)	2,954	2,862
Total non-current liabilities	4,742	2,862
Total liabilities	16,271	10,967
Capital stock	42,344	34,642
Contributed surplus	4,647	4,239
Accumulated other comprehensive income	(19)	(19)
Retained earnings	15,088	13,687
Total shareholders' equity	62,060	52,549
Total liabilities and shareholders' equity	78,331	63,516

Commitments and contingencies (Note 12)

Approved on behalf of the Board:

Mario Caron
Director

Julio Porteiro
Director

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS

Thousands of United States Dollars except for earnings per share amounts and weighted average number of shares outstanding

FOR THE YEARS ENDED MAY 31	2010 (\$)	2009 (\$)
Net sales	59,613	63,376
Operating expenses	(46,949)	(51,354)
Amortization and depreciation	(9,562)	(19,926)
Operating expenses	(56,511)	(71,280)
Sub-total	3,102	(7,904)
Other (expenses) income		
Stock based compensation expense	(407)	(345)
Non-hedged derivative gain (loss)	355	(464)
Exploration expenses written off (Note 9)	(614)	(2,694)
General and administrative expense	(3,593)	(3,809)
Net Interest and debt accretion income (loss)	69	27
Other income	1,302	107
Foreign exchange	(116)	48
	(3,004)	(7,130)
Income (loss) before taxes	98	(15,034)
Recovery for income taxes (Note 13)	1,303	679
Net and comprehensive income (loss) for the year	1,401	(14,355)
Retained earnings, beginning of year	13,687	28,042
Retained earnings, end of year	15,088	13,687
Earnings (loss) per common share		
Basic and diluted (Note 17)	0.03	(0.29)
Weighted average shares outstanding		
Basic	55,296,537	48,671,435
Diluted	55,322,243	48,848,803

CONSOLIDATED STATEMENTS OF CASH FLOWS

Thousands of United States Dollars, except where indicated

FOR THE YEARS ENDED MAY 31	2010 (\$)	2009 (\$)
Operating activities		
Net income (loss) for the year	1,401	(14,355)
Adjustments for:		
Amortization and depletion	9,562	19,926
Exploration expenses written off	614	2,694
Fair value of derivatives	(464)	464
Accretion of debt	155	80
Future income taxes	(1,180)	(40)
Stock based compensation	407	345
Asset sales	(1,466)	0
Others	(8)	290
	9,021	9,404
Net change in non-cash working capital balances (Note 16)	2,654	(2,355)
	11,675	7,049
Financing activities		
Proceeds from the issue of share capital	50	0
Share repurchases	0	(401)
Payments of finance lease net of draw downs	(3)	(175)
	47	(576)
Investing activities		
Purchase of property, plant and equipment and mineral properties	(6,459)	(5,472)
Asset sales	2,717	0
Exploration expenditure	(8,785)	(10,106)
	(12,527)	(15,578)
Decrease in cash	(805)	(9,105)
Cash at the beginning of year	9,496	18,601
Cash at the end of year	8,691	9,496

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Thousands of United States Dollars, except where indicated

FOR THE YEARS ENDED	MAY 31, 2010		MAY 31, 2009	
	Number (000's)	Amount (\$)	Number (000's)	Amount (\$)
Common shares				
Balance at beginning of year	48,667	34,642	48,811	35,043
Issued for Fortune Valley acquisition (see Note 5)	15,766	7,628	0	0
Exercise of stock options	363	74	0	0
Share Repurchases	0	0	(144)	(401)
Balance at end of year	64,796	42,344	48,667	34,642
Contributed surplus				
Balance at beginning of year		4,239		3,882
Employee stock based compensation recognized		407		345
Transfer to common shares		(24)		0
Issued for Fortune Valley acquisition (see Note 5)		25		12
Balance at end of year		4,647		4,239
Accumulated other comprehensive income				
Balance at beginning of year		(19)		(19)
Movement for the year		0		0
Balance at end of year		(19)		(19)
Retained earnings				
Balance at beginning of year		13,687		28,042
Net income (loss) for the year		1,401		(14,355)
Balance at end of year		15,088		13,687
Shareholders' equity at end of year		62,060		52,549

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

1. Nature of Operations

Orosur Mining Inc. is a gold producer and exploration company focused on identifying and developing mineral opportunities either directly or through joint ventures.

Orosur Mining Inc. is governed by the corporate laws of the Yukon Territory. The Company's shares are listed on the TSX Venture Exchange in Canada and the Alternative Investment Market (AIM) of the London Stock Exchange in the United Kingdom.

2. Change of name to Orosur Mining Inc.

On October 13, 2009, the annual shareholder meeting approved to amend the Articles of Uruguay Mineral Exploration Inc. to change its name to Orosur Mining Inc. Effective January 7, 2010 the name was changed.

3. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The reference to "the Company" in these consolidated financial statements includes the parent and all of its subsidiaries.

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

- (a) Consolidation: The consolidated financial statements include the accounts of the Company and its controlled subsidiaries from their respective dates of acquisition. All inter-company transactions have been eliminated.
- (b) Reporting currency and foreign currency translation: Most of the Company's operations are conducted by its Uruguayan and Chilean subsidiaries in United States Dollars. The Company has adopted the United States Dollar as its functional and reporting currencies. The Company has determined that all of its operations are integrated, as such, the Company translates foreign currencies into the reporting currency on the following basis:
 - Non-monetary assets and liabilities using historical rates;
 - Monetary assets and liabilities using period end rates; and
 - Income and expenses are translated at average rates of exchange during the period.

Gains and losses arising from the translation of foreign currency balances into US dollars and from foreign currency transactions related to integrated operations are recorded in earnings.
- (c) Cash and equivalents: Cash and equivalents consist of cash in bank, deposits held at call with banks and other short term highly liquid investments with original maturity dates of three months or less.
- (d) Property, plant and equipment and mineral properties: Property, plant and equipment is recorded at cost less accumulated amortization. Plant and other equipment are amortized on a straight line basis over the estimated productive life of the asset. Productive lives for mobile and other equipment range from 2 to 5 years.

Mineral properties include:

 - Development costs incurred to bring a mining property into production, develop new ore bodies or develop mining areas in advance of production, including stripping cost in a pre-production phase. Development costs are capitalized when a mine plan has been prepared, proven and

3. Significant Accounting Policies (cont.)

probable reserves have been established, and the Company has decided to commercially develop the property. Development expenditure is accumulated separately for each area in which economically recoverable mineral resources have been identified and are reasonably assured.

- Deferred Exploration once mineral resources have been identified in the property and incorporated to the Company's resource statements.

No amortization is provided in respect of mineral properties until commencement of commercial production. Mineral properties are amortized and charged to operations using the units of production method based on the estimated life of mine considering recoverable proven and probable reserves. All expenditures incurred prior to the commencement of commercial levels of production from each development property are capitalized to the extent to which recoverable from cash flows to be derived from the sale of production is reasonably assured. Amounts shown as development costs are net of revenue earned prior to commercial production.

- (e) Impairment of assets: The Company reviews its mining assets when circumstances or events indicate that an impairment may exist. Where such circumstances are identified, the Company estimates future cash flows from those assets and compares this amount with the carrying value. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

Estimated future cash-flows includes estimates of recoverable resources and commodity prices (considering historical prices, price trends and related factors) and estimated production related expenses discounted by the Company's weighted average cost of capital with appropriate adjustment for the risk associated with the relevant unit. Estimates of future net cash flows are based on ore reserves and mineral resources for which there is a high degree of confidence of economic extraction.

- (f) Deferred exploration: Exploration and evaluation expenditure is capitalized under areas of interest defined by the Company and carried forward as an asset until management has made a positive decision to develop the project or written down when events or changes in circumstances indicate that its carrying amount may not be recoverable. The excess of carrying value over fair value is charged to income. When mineral resources are to develop the area of interest exploration and evaluation expenditures are reclassified and shown as a Mineral Property asset.

Expenditure to be capitalized includes direct cost attributable to the exploration and evaluation projects, such as topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching and sampling and of the acquisition of rights to explore. Overhead costs that are directly attributable to exploration and evaluation activities, but not directly attributable to an individual project or area, such as general advisory, the cost of a central exploration office or the cost of a mining tenements office are allocated to areas of interest and capitalized.

Borrowing costs derived from the exploration and evaluation activities financing, exchange differences related to monetary assets and liabilities associated to the exploration activities and depreciation of property, plant and equipment used in the exploration activities are not capitalized and recognized as expenses as they are incurred.

The recoverability of amounts shown for deferred exploration and evaluation is dependent upon the discovery of economically recoverable reserves. The exploration assets are reassessed on a regular basis for impairment. An impairment of an exploration asset occurs when at least one of the following conditions are met:

- the Company's right to explore in an area of interest has expired or will expire in the near future and is not expected to be renewed;
- the Company has strategically decided to discontinue activities in the area of interest;
- substantive exploration expenditure on further exploration in the area of interest is neither budgeted nor planned in the near future and no negotiations to sell the project or farm it out are planned or considerably advanced;
- no substantive exploration expenditure has been done in the area of interest during the last three years.

3. Significant Accounting Policies (cont.)

The exploration asset is written off in the period it is considered impaired under the criteria outlined above.

- (g) Inventories: Inventories include supplies and materials, ore stockpiles, gold in circuit and finished goods, and are measured at the lower of cost or net realizable value.

Materials and supplies include consumable stores and spare parts used in operations. Appropriate allowances for damage, obsolescence and slow moving items are recorded based on an identification process. Spare parts include spares that are regularly replaced, usually as part of a replacement programme (circulating spares). However, major spare parts on hand to ensure the uninterrupted operation of the production equipment before an unexpected breakdown or equipment failure and stand-by equipment are accounted for as property, plant and equipment and depreciated over the same period as the component they are associated with.

Ore stockpiles are comprised of coarse ore that has been extracted from the mine and is available for processing. Stockpiles are valued at the lower of average cost or net realizable value with quantities determined through physical measurement and grade determined through assay testing. Ore with a marginal cutoff grade is stockpiled for potential future processing but is carried at zero value.

Gold in circuit represent materials that are currently being converted to a saleable product and are measured based on assays of the material fed to the processing plants and expected recoveries. Value of the inventory is at the lower of average cost and net realizable value.

Finished metal inventories include gold and silver dore bullions before refining, and finished gold and silver ingots, and are valued at average production cost and are not marked to market. Average production cost represents the average cost of in process inventories prior to the refining process and any relevant refining costs. Sales and refining costs are not part of the cost of inventories.

Cost of inventories are determined using the absorption method which includes all the costs of purchase and conversion, including costs that are directly related to production and an allocation of fixed and variable production overheads, including depreciation of mine properties and of property, plant and equipment used in mining and processing the ore.

- (h) Future income taxes: The Company uses the assets and liability method to account for future income taxes.

Under this method, future income tax assets and liabilities are determined based on differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and calculated using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related future income tax asset is realized or the future income tax liability is settled.

Future income tax assets are recognized to the extent that is more likely than not that losses available for carry forward will be used to offset future income taxes. The effect on future income tax assets and liabilities of a change in rates is included in the period during which the change is substantively enacted.

- (i) Asset retirement obligations: Asset retirement obligations include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas.

The estimated fair value of asset retirement obligations is provided for in the accounting period when the legal obligation arising from the related disturbance occurs. A technique based on the net present value of estimated future costs is used to estimate the fair value of the liability. Asset retirement obligations are a normal consequence of mining, and the majority of close down and restoration expenditure is spent at the end of the life of the mine. Costs are annually estimated on the basis of a closure plan to reflect known developments, update costs estimates and revise estimated lives of operations, and are subject to formal reviews at regular intervals. Although the ultimate cost to be incurred is uncertain, the Company's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques and industry guidelines, on a site by site basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

3. Significant Accounting Policies (cont.)

Upon initial recognition of a liability for an asset retirement obligation, an asset retirement obligation is capitalized by the same amount of the liability within property, plant and equipment. The asset retirement cost is expensed using a systematic and rational method over its useful life, mostly the unit of production method based on estimated proven and probable reserves as determined by independent engineers, and is included as an operation cost. In subsequent periods, the Company recognizes the changes in the liability for an asset retirement obligation resulting from the passage of time and the revisions to either the timing or amount of the original estimate of undiscounted cash flows.

Changes resulting from revisions to the timing or the amount of the original undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability for an asset retirement obligation against the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

Changes due to the passage of time, meaning the “unwinding” of the discount applied in establishing the net present value of the liability, is charged to the income statement in each accounting period.

As noted above, the ultimate cost of the close down and restoration is uncertain and costs estimated can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experiences at other mine sites. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for close down and restoration which would affect future financial results.

- (j) Revenue recognition: Revenue from mining operations is recognized after shipment of gold to third party refineries, when the sales price is determinable, title has passed to the customer and collection of the sale is reasonably assured.
- (k) Stock-based compensation plan: The Company has a stock-based compensation plan and recognizes compensation expense for option awards. Compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and is recognized over the vesting period with a corresponding increase to contributed surplus. Upon exercise, the proceeds of the options are credited to capital stock at the option price and the fair value of the options, as previously recorded, is reclassified from contributed surplus to capital stock. Stock options issued to persons other than employees are accounted for at fair value and deferred and amortized over the relevant service period.
The Company elected to adopt the fair value base method of accounting for stock-based compensation on a prospective basis, applied to awards granted under the plan since March 2003. For awards granted prior to that date the Company applies the settlement method, in that no compensation expense is recorded, and when the options are exercised, share capital is increased in the amounts of the proceeds received.
- (l) Derivatives: Financial derivatives are marked to market with the fair value of the derivative instruments recognized as unrealized gains and losses in the statement of income.
- (n) Joint venture: Certain of the Company’s exploration and development activities may be conducted jointly with others. These consolidated financial statements reflect only the Company’s proportionate interest in such activities.
- (o) Reclassification: Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

4. Recent accounting pronouncements

The Canadian Institute of Chartered Accountants (CICA) has issued the following standards which may affect the financial position, results of operations and disclosures of the Company for interim and annual periods beginning on the periods indicated:

4. Recent accounting pronouncements (cont.)

- (a) Section 1582, Business Combinations, replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business combinations. This section applies to fiscal years beginning on or after January 1, 2011. The Company will assess the impact of this section prior to implementation.
- (b) Section 1601, Consolidated financial statements and Section 1602 Non Controlling interests together replace Section 1600 Consolidated financial statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These sections apply to financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will assess the impact of these sections prior to implementation.
- (c) Section 3862, Financial Instruments – Disclosures, was amended during 2009 to require enhanced disclosures about the relative reliability of the data or “inputs” that an entity uses to measure the fair values of its financial instruments. The new requirements include the classification of financial instruments within a three-level hierarchy that prioritizes the inputs to fair value measurement according to their significance. In addition, the amendments require enhanced disclosures regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. Comparative information is not required in the year of adoption. The impact of these amendments is disclosed in note 15 (h) of these financial statements.

5. Business combination – Acquisition of Fortune Valley Resources Inc.

On January 7, 2010, the Company and Fortune Valley Resources Inc. (Fortune Valley) announced the completion of the plan of arrangement pursuant to which Orosur has acquired all of the issued and outstanding common shares of Fortune Valley in consideration of 0.4534 common shares of the Company for each Fortune Valley share, plus an additional CDN\$0.001 in cash for each Fortune Valley share. Additionally, each Fortune Valley option outstanding has been exchanged for an option to acquire a Company’s share at the same share exchange ratio. The original option terms and conditions have been maintained, with the new exercise price equal to the quotient of the Fortune Valley option price and the share exchange ratio.

The arrangement was carried out pursuant to the provisions of the Business Corporations Act (British Columbia) and was approved by the Supreme Court of British Columbia and the affirmative vote of Fortune Valley’s shareholders at a special meeting of the shareholders held on December 29, 2009. Pursuant to the Arrangement, Orosur acquired 34,772,025 issued and outstanding common shares of Fortune Valley (representing 100% of Fortune Valley’s outstanding common shares) in consideration for the issuance of 15,765,638 of the Company’s common shares at CAD\$0.50 per share and cash consideration in the aggregate amount of \$34. In addition, holders of Fortune Valley options are entitled to receive 1,008,815 of the Company’s common shares on exercise of 2,225,000 Fortune Valley options at a Company’s weighted average price of CAD\$0.82 per share.

The purchase price was calculated as follows:

	\$
Common shares issued – 15,765,638 shares	7,628
Fair value of stock options issued – 1,008,815 options	25
Cash consideration	34
Debt with Orosur	644
Transaction costs	434
Total purchase price	8,765

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

5. Business combination – Acquisition of Fortune Valley Resources Inc. (cont.)

For the purpose of these consolidated financial statements, the following table sets forth an allocation of the purchase price to assets and liabilities acquired.

	\$
Cash	8
Accounts receivable	19
Prepaid expenses	17
Accounts payable and accrued liabilities	(439)
Future income tax liability	(1,774)
Deferred exploration	10,934
Total purchase price	8,765

The primary assets acquired are signed option agreements to acquire 100% interest in the Pantanillo property and 65% interest in the Anillo property, all located in Chile. Option agreements are detailed in Note 9 of these financial statements.

6. Accounts Receivable

	2010 (\$)	2009 (\$)
Receivables	285	73
Tax receivables	2,066	2,826
	2,351	2,899

Receivables include expenses to be reimbursed by farm-out partners, suppliers and miscellaneous asset sales. Tax receivables consist of refunds for Canadian GST and Uruguayan Value Added Tax (VAT).

7. Inventories

	2010 (\$)	2009 (\$)
Ore in stockpiles	6,461	6,121
Gold in circuit	1,529	862
Finished metals	886	802
Materials and supplies	9,214	9,857
	18,090	17,642

8. Property, Plant and Equipment and Mineral Properties

	2010 (\$)		
	Cost	Accumulated Amortization and Depletion	Net Book Value
Land and lease rights	1,691	0	1,691
Plant and equipment	34,516	26,238	8,278
Asset retirement obligation	2,638	2,638	0
Mineral properties	38,976	30,188	8,788
	77,821	59,064	18,757

8. Property, Plant and Equipment and Mineral Properties (cont.)

	2009 (\$)		
	Cost	Accumulated Amortization and Depletion	Net Book Value
Land and lease rights	2,088	0	2,088
Plant and equipment	31,035	22,091	8,944
Asset retirement obligation	2,687	2,687	0
Mineral properties	31,075	25,154	5,921
	66,885	49,932	16,953

- (a) The plant is located on leased land. The lease expires in 2026. No further payments are due on the lease.
- (b) Included in property, plant and equipment is \$1,333 (2009 - \$1,262) of major spare parts that are amortized on a straight line basis over a period of between two to four years according to their useful life.
These major spare parts are maintained to ensure the uninterrupted operation of the production equipment before an unexpected breakdown or equipment failure.
- (c) During November 2009, the Company sold the head office buildings located in Montevideo for a total consideration of \$2,300.
- (d) Mineral properties include the expenditure incurred for the development of Arenal Deepes and the side and deep extensions of the San Gregorio mine. The accumulated costs were \$4,117 and \$1,438 respectively.

9. Deferred Exploration

	2010 (\$)	2009 (\$)
Balance at beginning of year	12,437	8,948
Cash payments for exploration expenditure during the year	8,317	10,106
Acquisition of Fortune Valley	10,934	0
Reclassification to mineral properties	(6,224)	(3,923)
Exploration expenses written off	(614)	(2,694)
Balance at the end of the year	24,850	12,437

(a) Fortune Valley acquisition:

As a result of the acquisition of Fortune Valley referred in Note 5, the Company has acquired the following option agreements:

- Option agreement signed with Anglo American Norte S.A., a subsidiary of Anglo American plc. Under the agreement, the Company must spend \$4,000 on development work and cash payments of \$850 over a period of three years to acquire 100% interest in the Pantanillo property, located in Region III of Chile. The vendor will receive a 3.5% net smelter return royalty on future production from the property. An annual minimum royalty of \$300 is payable in years four and five, increasing to \$1,000 from year six.
- Option agreement signed on January 10, 2008 with Corporación Nacional del Cobre de Chile (Codelco) to acquire a 65% interest in the Anillo property located Region II of Chile. The Company must spend \$3,000 over four years and complete a bankable feasibility study within a further two years in order to earn a 65% interest in the property.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

g. Deferred Exploration (cont.)

Following the completion of the bankable feasibility study, Codelco and the Company will establish a joint venture company. The agreement includes an option for Codelco to place up to 20% of the capital stock in the new joint venture company with the public, provided that the Company retains the right to maintain its ownership interest. In the event the Company discovers a copper deposit on the Anillo property, Codelco will have a back-in right to increase its ownership interest by up to 35% to 70% by reimbursing the Company for its expenditures. The back-in right will not apply to the discovery of a gold deposit.

(b) Farm-out agreements:

- On January 2010 the Company entered into an Option Agreement with Gladiator Resources Limited ("Gladiator"), an ASX listed mineral exploration and development company, which gives Gladiator the right to earn up to an 80% interest in the iron ore, manganese ore and base metal assets in the Company's tenements located in the Isla Cristalina Belt.

Upon execution of the Definitive Agreement, Gladiator will issue to the Company the equivalent of \$AUD100,000 in fully paid shares in Gladiator at market value, calculated over the preceding five day trading period. Following this initial payment, Gladiator will be entitled to earn a 20% interest by spending \$1,000 on work programs. Gladiator may, at its option, earn a further 31% by spending a further \$4,000 taking its total interest to 51%. Gladiator may then elect to earn a further 29% taking its interest to 80% by producing a bankable feasibility study on or before December 31, 2014.

- During May 2009, the Company signed a farm-out agreement with Olivut Resources Ltd. (Olivut) on its diamonds properties. According to the agreement, Olivut may earn up to 80% interest in diamond prospecting and exploration licenses located in Northern Uruguay acting as operator of the exploration program. Olivut must incur a minimum expenditure of CDN\$250,000 by June 1, 2010 and a total of CDN\$750,000 by December 31, 2011 in order to acquire a 51% interest in the Properties. Initial commitment of CDN\$250,000 has been fulfilled.

(c) Other exploration commitments:

- The Company previously purchased a Uruguayan diamond database. Under the terms of the agreement the vendor was paid \$20 and is entitled to an additional 0.8% royalty on any net diamond sales from any diamond deposit discovered by the Company in Uruguay. A further 0.2% royalty will be paid to a third party, who has an interest in the database.
- For the Texas and Mal Abrigo projects the Company has committed to pay a 2% net profits interest and a 2% net smelter return respectively, payable to the vendor. The Company may repurchase the net smelter return of the Mal Abrigo project at any time by paying a lump sum of \$650.
- The Company has the right to purchase shares of a Uruguayan company, Davinco S.A ("Davinco") that owns the Presidente Terra project pursuant to an agreement dated May 14, 1997. Under this agreement the Company has the option to purchase 80% of the issued share capital of Davinco for the amount of \$750 payable in installments, and the remaining 20% once a decision has been made to develop a mining operation, at a variable price. At May 31, 2010 \$475 of the \$750 has been paid, with the remaining installment of \$275 due within five days after completing a feasibility study on the Presidente Terra project.

(d) Exploration projects evaluation and resource definition work

During the year, management determined that the carrying value of certain capitalized exploration expenditure attributed to specific projects was impaired as substantive expenditure or further exploration and evaluation activities in those areas is neither budgeted nor planned. Exploration expenditures incurred during the year to evaluate the acquisition of mineral projects prior to obtaining an exploration license (pre-exploration expenses) were also expensed. The total amount expensed was \$614 (2009 - \$2,694).

9. Deferred Exploration (cont.)

Capitalized exploration expenditure of \$6,224 (2009 – \$3,923) was reclassified as an intangible asset under Mineral Properties as they were related to areas in which a mineral resource was determined.

The amounts transferred includes exploration work for development of Arenal Deeps and San Gregorio extension, and resource definition work for Zapucay, Argentinita, Sobresaliente, Santa Teresa and Castrillon pits.

(e) Exploration performance bonds

The Uruguay mining legislation requires all mining titles to be supported by guarantees to cover the cost of any environmental rehabilitation requirements resulting from exploration activities. The Company has facility agreements with Uruguayan local insurance companies and banks to support the required guarantees. The total guarantees provided at May 31, 2010 to support exploration activities on tenements granted were approximately \$3,823 (2009 - \$3,445).

10. Asset Retirement Obligations

The Company's asset retirement obligations relates to the retirement and remediation of the San Gregorio Operation in Uruguay.

The asset retirement obligations have been recorded as a liability at estimated fair value determined by calculating the net present value of estimated future costs, assuming a weighed average cost of capital of 8.5% (2009 - 8.5%) and an inflation factor of 2.4% (2009 – 2.5%).

The following table summarizes the movements in the asset retirement obligation for the years ended May 31, 2010 and 2009.

	2010 (\$)	2009 (\$)
Balance at beginning of year	2,862	2,869
Changes in cash flow estimates	(49)	(75)
Expenditure incurred in rehabilitation	(14)	0
Accretion expense	155	68
Balance at end of year	<u>2,954</u>	<u>2,862</u>

Management's estimates of future cash flows were revised during the year. Changes in estimation relate to a deferral of dismantling the operation's infrastructure due to an increase of operations life as a result of additional underground resources available in the future. The liability for the asset retirement obligation on an undiscounted basis is estimated to be approximately \$3,458 of which approximately \$2,312 is expected to be incurred before 2012.

Uruguayan mining and environmental legislation requires environmental obligations to be supported by guarantees. As a result, a rehabilitation guarantee letter of credit of \$1,500 (2009 - \$1,500) has been provided by HSBC Bank (Uruguay) S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

11. Equity Instruments

- (a) Authorized: Unlimited number of common shares of no par value.
- (b) Employee stock options: The Company has an option Plan for its officers, directors, employees and consultants of the Company and its subsidiaries. Options under the plan are typically granted in such numbers as reflects the responsibility of the particular optionee and his or her contribution to the business and activities of the Company. Options granted under the plan have a term of up to 5 years. Except in specified circumstances, options are not assignable and terminate on the optionee ceasing to be employed by or associated with the Company. The terms of the Plan further provide that the price at which shares may be issued under the Plan cannot be less than the market price (net of permissible discounts) of the shares when the relevant options were granted. Options vest lineally over a three year period that may start at the time they are granted or on the first year anniversary after granted.

The weighted average fair values of all stock options granted during 2010 and 2009 were CDN\$0.91 and CDN\$0.83 respectively, estimated as of the date of grant using the Black-Scholes option pricing model with the following average assumptions:

	2010	2009
Expected option life (years)	Range of 2.3 to 2.5	Range of 2.2 to 3.1
Volatility	Range of 105% to 106%	Range of 55% to 95%
Risk-free interest rate	Range of 1.19% to 1.30%	Range of 1.10% to 3.12%
Dividend yield	Nil	Nil

During the year \$407 (2009 - \$345) of compensation expense was recorded. At May 31, 2010 the aggregate unamortized fair value of unvested stock options granted amounted to \$124 (2009 - \$292).

At May 31, 2010 there were 2,749,850 options outstanding, of which 1,882,517 are exercisable (2009 - 3,172,250 and 1,818,750 respectively). The weighted average exercise price of the options outstanding at May 31, 2010 is CDN\$2.04 (2009 CDN\$2.98)

The following table summarizes information regarding the Company's outstanding options at May 31, 2010:

	Number of Shares (000's)	Option Price per Share CDN \$	Weighted Average Range Exercise Price CDN \$
Balance at May 31, 2008	2,859	\$3.00 - \$5.50	\$3.99
Granted	983	\$0.38 - \$0.60	\$0.59
Exercised, cancelled and forfeited	(670)	\$0.60 - \$4.77	\$3.78
Balance at May 31, 2009	3,172	\$0.38 - \$5.50	\$2.98
Granted	941	\$0.40 - \$0.61	\$0.58
Option exchange - Fortune Valley acquisition	1,009	\$0.28 - \$1.65	\$0.82
Exercised	(363)	\$0.28 - \$0.28	\$0.28
Forfeited	(2,009)	\$0.60 - \$5.40	\$2.56
Balance at May 31, 2010	2,750	\$0.38 - \$5.50	\$2.04

11. Equity Instruments (cont.)

Range of option price CDN \$	Outstanding			Exercisable	
	Options oos	Weighted average Exercise Price CDN \$	Weighted average remaining contractual life Years	Options oos	Weighted average exercise Price CDN \$
0.00 – 0.40	180	0.40	4.62	70	0.39
0.41 – 0.60	646	0.60	3.39	430	0.60
0.61 – 1.00	733	0.67	3.99	320	0.75
1.00 – 4.00	847	3.57	1.95	718	3.63
4.01 – 5.50	344	4.72	0.49	344	4.72
	<u>2,750</u>	<u>2.04</u>	<u>2.82</u>	<u>1,882</u>	<u>2.52</u>

12. Commitments and contingencies

Commitments and contingencies for exploration acquisitions are shown in note 9.

13. Income Taxes

(a) The following table sets out changes in the future income tax asset for the current year:

	2010 (\$)	2009 (\$)
Balance beginning of year	3,001	5,375
Recognized future tax income (expense)	1,180	(2,374)
Balance end of year	4,181	3,001

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

	2010 (\$)	2009 (\$)
Property plant and equipment	3,318	2,830
Inventories	456	(7)
Deferred exploration and mineral properties	377	(160)
Fiscal losses	30	0
Other assets and liabilities	0	338
Net future income tax asset	4,181	3,001

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

13. Income Taxes (cont.)

(b) The future tax liability of \$1,774 at May 31, 2010, relates to the difference in the unclaimed tax deductible costs of capital assets in Chile and the related accounting carrying value. The accounting carrying value is based on the fair value of net assets acquired in the acquisition of Fortune Valley as shown in Note 5. When the assets are amortized there will be an associated tax benefit for accounting purposes. The future tax liability is based on consolidated accounting values and any cash liability for income tax purposes is not triggered unless the underlying assets are sold.

(c) Un-recognized tax benefits and exploration expense pool.

Tax losses

At May 31, 2010 the Company had non capital loss carry forwards of \$24,076 (2009 - \$16,167). The losses at gross value by tax jurisdictions expire as shown in the following table:

	Chile	Canada	Uruguay	Barbados
Year to 31 May 2011	0	0	9,215	0
Year to 31 May 2014	0	0	3,979	0
Year to 31 May 2015	0	0	122	0
Year to 31 May 2017	0	0	0	1,039
Year to 31 May 2018	0	0	0	1,377
Year to 31 May 2019	0	0	0	468
Year to 31 May 2026	0	900	0	0
Year to 31 May 2027	0	0	0	0
Year to 31 May 2028	0	1,248	0	0
Year to 31 May 2029	0	1,411	0	0
Year to 31 May 2030	0	989	0	0
No expiration term	3,328	0	0	0
	3,328	4,548	13,316	2,884

Management believes that it is not appropriate to recognize a future tax asset on tax loss carry forwards.

Such a decision is based on the uncertainty there will be sufficient future taxable income generated by the subsidiaries where the losses are allocated.

Rehabilitation plan

Expenses estimated and accrued to determine the environmental restoration liability will be deductible for income tax purposes at the time restoration expenses are paid. Given the uncertainty there will be sufficient future taxable income at time of restoration, no future tax asset is recognized for the environmental liability of \$2,954 (2009 - \$2,862)

Exploration expense pool

In Uruguay, the Company has deferred exploration expenditure which result in available tax pools of \$13,443 in Uruguay and \$1,963 in Chile (2009 - \$12,800 in Uruguay and nil in Chile), which may be deductible against tax derived from future production income.

13. Income Taxes (cont.)

(d) The provision for income tax differs from the weighted average statutory tax rates as follows:

	2010 (\$)	2009 (\$)
Income before taxes	98	(15,034)
Income tax rate	34%	34%
Expected income tax expense	33	(5,111)
Tax effect of:		
Effect of lower tax rates	(9)	1,523
Inflation adjustment	(567)	(509)
Foreign exchange	(1,930)	2,159
Tax losses for the year not recognized	627	1,593
Other permanent differences	543	778
Benefit not previously recognized	0	(1,112)
Income tax recovery	(1,303)	(679)
Comprising		
Current income tax recovery	(123)	(639)
Future income tax recovery (provision)	(1,180)	2,374
Long term tax liability reversal	0	(2,414)
	(1,303)	(679)

14. Segmented Information

The Company has three reportable segments: gold, exploration and corporate. The corporate segment is responsible for corporate financing and other business development activities for the Company. The gold segment operates the San Gregorio gold mine and the exploration segment is devoted to the acquisition and exploration of mineral properties in Uruguay and Chile. Precious metals are refined and sold in Europe.

	2010 (\$)				
	Gold	Exploration Uruguay	Exploration Chile	Corporate	Total
Net sales	59,613	0	0	0	59,613
Amortization and depletion	9,094	468	0	0	9,562
Deferred exploration expenses written off	0	614	0	0	614
Net interest and debt accretion income (loss)	71	0	(2)	0	69
Income tax recovery	1,303	0	0	0	1,303
Net income (loss)	5,368	(2,419)	(30)	(1,518)	1,401
Property, plant and equipment	18,299	458	0	0	18,757
Deferred exploration	0	11,874	12,976	0	24,850
Capital expenditure	6,459	0	0	0	6,459

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

14. Segmented Information (cont.)

	2009 (\$)				
	Gold	Exploration Uruguay	Exploration Chile	Corporate	Total
Net sales	63,376	0	0	0	63,376
Amortization and depletion	19,238	688	0	0	19,926
Deferred exploration expenses written off	0	2,694	0	0	2,694
Net interest and debt accretion income (loss)	27	0	0	0	27
Income tax recovery	679	0	0	0	679
Net income (loss)	(7,559)	(5,006)	0	(1,790)	(14,355)
Property, plant and equipment	14,696	1,022	0	1,235	16,953
Deferred exploration	0	12,437	0	0	12,437
Capital expenditure	5,446	26	0	0	5,472

15. Financial Instruments

The Company's activity exposes it to a variety of financial risks, mainly to commodity price risk and currency risk. The Company overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

- (a) **Commodity Price Risk:** The Company discretionally uses financial derivatives to mitigate the risk of gold price fluctuations.

During May 2010, the Company committed to a put option contract for 14,000 ounces for the period June - August 2010, at a strike price (minimum guaranteed) of \$1,165 per ounce for a consideration premium of \$212.

The Company does not apply hedge accounting which would allow deferring gains and losses on the hedging derivatives to the same period or periods in which the underlying exposure being hedged is brought into account. Instead, the fair value of the hedging derivative is recognized in the measurement of the Company's net income in the period in which the hedge was committed.

- (b) **Currency risk:** The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to its functional currency, the US dollar. Foreign exchange risks arise from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Cash balances are held principally in US dollars, while its expenses are incurred in Uruguay pesos as well as US dollars and other currencies. The Company reports its results in United States dollars. There would be an adverse impact on the reported results if the following situations arise:

- (i) The Uruguay inflationary impact on the peso expenses increases at more than the depreciation of the Uruguay peso against the US dollar. This would result in an increase of the peso-based expenses.
- (ii) The US dollar depreciates against the Uruguay peso. This would reduce the available cash resources and increase the related expense.

A significant portion of the Company's operations are located in Uruguay, and are subject to fluctuations in exchange rates. The Company manages its currency rate risk by denominating its contracts and commitments, where possible, in US dollars

- (c) **Fair value:** The Company's financial instruments include cash and cash equivalents, receivables, accounts payable, accrued liabilities and debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising

15. Financial Instruments (cont.)

from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

- (d) Interest rate risk: The majority of the Company's debt is non interest bearing
- (e) Credit risk: The Company is exposed to credit risk with respect to managing its cash position. This risk, from deposit granting institutions and/or commercial paper issuers, is mitigated by using well capitalized financial institutions. Credit risk relating to accounts receivable arises from the possibility that any counter party to an instrument may fail to perform. The Company currently transacts with highly-rated counterparties for the sale of gold. Counterparties include its current lenders.
- (f) Capital management: The Company manages its capital to ensure that the Company and its subsidiaries will be able to continue as a going concern while attempting to maximize the return to shareholders through the optimization of a reasonable debt and equity balance commensurate with current operating requirements. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure.
- (g) Insurance
The Company purchases limited discretionary insurance to cover catastrophic property damage, business interruption and liability risk.
- (h) Fair value measurement of financial instruments
According to CICA Handbook Section 3862, financial instruments should be classified within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of fair value hierarchy are:
Level 1 - Unadjusted quoted prices in active markets for identical assets or 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.

The following table presents the classification of the Company's financial instruments within the fair value hierarchy before mentioned as at May 31, 2010:

Financial Instrument	Level 1	Level 2	Level 3	Total
Cash	8,691	0	0	8,691
Restricted cash	191	0	0	191
Total	8,882	0	0	8,882

16. Statement of Cash Flows

- (a) The net change in non-cash working capital items is as follows:

	Movement 2010 (\$)	Impact of Fortune Valley acquisition (*)	2010 (\$)	2009 (\$)
Accounts receivable	548	19	567	(89)
Prepaid expenses	(305)	17	(288)	89
Inventories	(448)	0	(448)	(893)
Accounts payable and accrued liabilities	3,906	(1,083)	2,823	(1,462)
	3,701	(1,047)	2,654	(2,355)

(*) See Note 5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

16. Statement of Cash Flows (cont.)

(b) Supplementary cash flow information:

	2010 (\$)	2009 (\$)
Income tax paid	95	42
Interest paid	98	103

17. Basic and Diluted earnings per share

The reconciliation of basic and diluted earnings per share where relevant is as follows:

	2010 (\$)	2009 (\$)
Basic earnings (loss) per share		
<i>Numerator</i>		
Net earnings (loss) available to shareholders	1,401	(14,355)
<i>Denominator</i>		
Weighted average shares outstanding	55,296,537	48,671,435
Basic earnings (loss) per share (cents per share)	0.03	(0.29)
<hr/>		
	2010 (\$)	2009 (\$)
Diluted earnings (loss) per share		
<i>Numerator</i>		
Net earnings (loss) available to shareholders	1,401	(14,355)
<i>Denominator</i>		
Weighted average shares outstanding	55,296,537	48,671,435
Potential net incremental issue of shares from stock options	25,706	177,368
Shares outstanding plus assumed conversions	55,322,243	48,848,803
Diluted earnings (loss) per share (cents per share)	0.03	(0.29)

Basic earnings per common share ("EPS") have been calculated using the weighted-average number of shares outstanding during the year. The calculation of diluted earnings per common share has been computed using the treasury stock method which assumes that options and warrants with an exercise price lower than the average quoted market price were exercised at the beginning of the year, or at time of issue. In applying the treasury stock method, options and warrants with an exercise price greater than the average quoted market price of the common shares are not included in the calculation of diluted earnings per common share as the effect is anti-dilutive. The average quoted market price of the common shares during the year ended May 31, 2010 was CDN\$0.44 (2009 - CDN\$0.84).

Dilutive impact of potential net incremental issue of shares from in the money stock options has no impact for May 31, 2009 as there was a loss and these would be anti-dilutive.

www.orosur.ca

OROSUR MINING