



**Orosur Mining Inc.  
Consolidated Financial Statements  
For the years ended May 31, 2011 and 2010**

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## **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 Audit Committee, 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.

Ignacio Salazar

Chief Financial Officer

David Fowler

Chief Executive Officer

August 16, 2011

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## Independent Auditors' Report

August 16, 2011

### To the Shareholders of Orosur Mining Inc.

We have audited the accompanying consolidated financial statements of Orosur Mining Inc., which comprise the consolidated balance sheets as at May 31, 2011 and 2010 and the consolidated statements of operations, comprehensive income and retained earnings, cash flows and changes in shareholders' equity for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

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

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

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

#### **Opinion**

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

**(Signed) PricewaterhouseCoopers LLP**

**Chartered Accountants, Licensed Public Accountants**

**Orosur Mining Inc.**  
**Consolidated Balance Sheets**

Thousands of United States Dollars, except where indicated

<b>As at May 31</b>	<b>2011 (\$)</b>	<b>2010 (\$)</b>
<b>Assets</b>		
Cash	14,178	8,691
Accounts receivable (Note 3)	2,473	2,351
Inventories (Note 4)	17,363	18,090
Prepaid expenses	1,074	1,220
Short term investments	90	0
<b>Total current assets</b>	<b>35,178</b>	<b>30,352</b>
Property, plant and equipment and mineral properties (Note 5)	29,836	18,757
Deferred exploration (Note 6)	25,662	24,850
Future income tax assets (Note 9)	5,148	4,181
Restricted cash	223	191
<b>Total non current assets</b>	<b>60,869</b>	<b>47,979</b>
<b>Total assets</b>	<b>96,047</b>	<b>78,331</b>
<b>Liabilities and Shareholder's Equity</b>		
Accounts payable and accrued liabilities (Note 3)	12,362	11,510
Current portion of long term debt	14	19
<b>Total current liabilities</b>	<b>12,376</b>	<b>11,529</b>
Long term debt	0	14
Future income tax liability	1,774	1,774
Asset retirement obligation (Note 7)	2,942	2,954
<b>Total non-current liabilities</b>	<b>4,716</b>	<b>4,742</b>
<b>Total liabilities</b>	<b>17,092</b>	<b>16,271</b>
Capital stock	42,692	42,344
Contributed surplus	5,248	4,647
Accumulated other comprehensive income	(19)	(19)
Retained earnings	31,034	15,088
Total shareholders' equity	78,955	62,060
<b>Total liabilities and shareholders' equity</b>	<b>96,047</b>	<b>78,331</b>

Approved on behalf of the Board:

Mario Caron  
Director

Julio Porteiro  
Director

**Orosur Mining Inc.**

**Consolidated Statements of Operations, Comprehensive Income and Retained Earnings**

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

<b>For the years ended May 31</b>	<b>2011 (\$)</b>	<b>2010 (\$)</b>
<b>Net sales</b>	<b>78,734</b>	59,613
Operating expenses	<b>(43,950)</b>	(46,949)
Depreciation	<b>(8,219)</b>	(9,562)
<b>Operating expenses and depreciation</b>	<b>(52,169)</b>	(56,511)
<b>Sub-total</b>	<b>26,565</b>	3,102
<b>Other income (expenses)</b>		
Stock based compensation expense (Note 8)	<b>(713)</b>	(407)
Derivative gain (loss)	<b>(212)</b>	355
Exploration expenses	<b>(1,018)</b>	0
Exploration expenses written off (Note 6)	<b>(6,911)</b>	(614)
General and administrative expense	<b>(3,742)</b>	(3,593)
Net Interest and rehabilitation accretion	<b>(269)</b>	(249)
Gain on sale of fixed assets	<b>1,082</b>	1,282
Other income	<b>1,222</b>	338
Foreign exchange	<b>(2)</b>	(116)
	<b>(10,563)</b>	(3,004)
<b>Income before taxes</b>	<b>16,002</b>	98
Recovery (provision ) for income taxes (Note 9)	<b>(56)</b>	1,303
<b>Net and comprehensive income for the year</b>	<b>15,946</b>	1,401
<b>Retained earnings, beginning of year</b>	<b>15,088</b>	13,687
<b>Retained earnings, end of year</b>	<b>31,034</b>	15,088
<b>Earnings per common share</b>		
<b>Basic and diluted (Note 13)</b>	<b>0.24</b>	0.03
<b>Weighted average shares outstanding</b>		
Basic	<b>65,039,779</b>	55,296,537
Diluted	<b>65,688,435</b>	55,322,243

**Orosur Mining Inc.**  
**Consolidated Statements of Cash Flows**  
Thousands of United States Dollars, except where indicated

<b>For the years ended May 31</b>	<b>2011 (\$)</b>	<b>2010 (\$)</b>
<b>Operating activities</b>		
Net income for the year	15,946	1,401
<i>Adjustments for :</i>		
Depreciation	8,219	9,562
Exploration expenses written off	6,911	614
Fair value of derivatives	0	(464)
Accretion of asset retirement obligation	142	155
Future income taxes	(967)	(1,180)
Stock based compensation	713	407
Gain on sale of fixed assets	(1,082)	(1,466)
Others	(137)	(8)
	<u>29,745</u>	<u>9,021</u>
Net change in non-cash working capital balances (Note 12)	<u>1,603</u>	<u>2,654</u>
	<u>31,348</u>	<u>11,675</u>
<b>Financing activities</b>		
Proceeds from the issue of share capital	236	50
Debt payments	(19)	(3)
	<u>217</u>	<u>47</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment and development costs	(15,956)	(6,459)
Proceeds from the sale of assets	1,220	2,717
Exploration expenditure	(11,342)	(8,785)
	<u>(26,078)</u>	<u>(12,527)</u>
Increase (decrease) in cash	5,487	(805)
Cash at the beginning of year	<u>8,691</u>	<u>9,496</u>
<b>Cash at the end of year</b>	<b>14,178</b>	<b>8,691</b>

**Orosur Mining Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
Thousands of United States Dollars, except where indicated

For the years ended	May 31, 2011		May 31, 2010	
	Number (000's)	Amount (\$)	Number (000's)	Amount (\$)
<b>Capital stock</b>				
Balance at beginning of year	64,796	42,344	48,667	34,642
Issued for Fortune Valley acquisition	0	0	15,766	7,628
Exercise of stock options	444	348	363	74
Balance at end of year	<u>65,240</u>	<u>42,692</u>	64,796	42,344
<b>Contributed surplus</b>				
Balance at beginning of year		4,647		4,239
Employee stock based compensation recognized		713		407
Transfer to common shares		(112)		(24)
Issued for Fortune Valley acquisition		0		25
Balance at end of year		<u>5,248</u>		4,647
<b>Accumulated other comprehensive income</b>				
Balance at beginning of year		(19)		(19)
Movement for the year		0		0
Balance at end of year		<u>(19)</u>		(19)
<b>Retained earnings</b>				
Balance at beginning of year		15,088		13,687
Net income for the year		15,946		1,401
Balance at end of year		<u>31,034</u>		15,088
Shareholders' equity at end of year		<u>78,955</u>		62,060

May 31, 2011 and 2010

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## 1. Nature of Operations

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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.

Orosur operates in Uruguay and Chile. In Uruguay the Company operates the San Gregorio gold operations, the only producing gold mine in the country, has strategic land holdings with active near mine and regional exploration programs and has entered into contractual arrangements with third parties to develop iron ore, base metals and diamonds projects on its mining tenements. In Chile the Company has optioned two exploration properties from third parties.

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## 2. Significant Accounting Policies

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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.

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## 2. Significant Accounting Policies - continued

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- (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 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 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.

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## 2. Significant Accounting Policies - continued

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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 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.

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.

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## 2. Significant Accounting Policies - continued

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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.

May 31, 2011 and 2010

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## 2. Significant Accounting Policies - continued

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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.
- (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.

May 31, 2011 and 2010

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## 2. Significant Accounting Policies - continued

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- (m) Earnings per share: Basic earnings per common share are computed by dividing the net profit by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution effect of "in the money" securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine diluted per share amount which assumes that all outstanding stock options grants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common share at the average market price during the year.
- (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) Financial Instruments: Financial assets and financial liabilities are recognized initially at fair value.

After initial recognition the Company measures its financial assets and financial liabilities depending on the following classifications.

- Held-to-maturity financial assets are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net earnings in the period in which they arise.
- Held-for-trading financial instruments are carried at fair value with changes in fair value charged or credited to the statement of operations in the period in which they arise.
- Loans and receivables are initially recognized at their fair values, and subsequently measured at amortized cost using the effective interest rate method. Impairment losses are charged to net earnings in the period in which they arise.
- Available-for-sale financial instruments are carried at fair value with changes in the fair value charged or credited to other comprehensive income. Impairment losses relating to other than temporary impairments are charged to net earnings in the period in which they arise.
- Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method.
- All derivative financial instruments meeting certain recognition criteria are carried at fair value with changes in fair value charged or credited to income or expense in the period in which they arise.

The following is a summary of the accounting model the Company has elected to apply to each category of financial instruments outstanding as at May 31, 2011:

Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to (from) related parties	Other financial liabilities
Marketable securities	Available-for-sale

May 31, 2011 and 2010

## 2. Significant Accounting Policies - continued

(p) Accounting changes and recent pronouncements: In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian public entities will have to adopt IFRS effective for the fiscal years beginning on or after January 1, 2011. The Company will issue consolidated financial statements in accordance with IFRS commencing the first quarter ending August 31, 2011, with comparative information. The process will be ongoing as new standards and recommendations are issued by the International Accounting Standards Board and AcSB. The Company will cease to prepare its consolidated financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook - Accounting ("Canadian GAAP") for the periods beginning on June 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board. Consequently, future accounting changes to Canadian GAAP are not discussed in these consolidated financial statements as they will not be applied by the Company.

(q) Reclassification: Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

## 3. Accounts receivable and accounts payable

(i) Accounts receivable	<b>2011 (\$)</b>	2010 (\$)
Miscellaneous receivable	<b>2,134</b>	285
Tax receivables	<b>339</b>	2,066
	<b>2,473</b>	2,351

Miscellaneous receivable consist of expenses to be reimbursed by farm-out partners and suppliers, services provided to third parties and asset sales receivables. Asset sales receivable includes an outstanding balance to collect from the sale of the Company's drill fleet and associated spare parts and consumables of \$ 1,897.

Tax receivables consist of refunds to be collected for Uruguayan Value Added Tax and Canadian HST.

(ii) Accounts payable	<b>2011 (\$)</b>	2010 (\$)
Commercial suppliers	<b>8,163</b>	6,719
Salaries, labour benefits and social security contributions	<b>3,307</b>	2,221
Income tax, mining royalties and other taxes	<b>892</b>	2,570
	<b>12,362</b>	11,510

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**4. Inventories**

	<b>2011 (\$)</b>	2010 (\$)
Ore in stockpiles	<b>5,013</b>	6,461
Gold in circuit	<b>2,199</b>	1,529
Finished metals	<b>669</b>	886
Materials and supplies	<b>9,482</b>	9,214
	<b>17,363</b>	18,090

**5. Property, Plant and Equipment and Mineral Properties**

	<b>Cost</b>	<b>2011 (\$)</b> <b>Accumulated Amortization and Depletion</b>	<b>Net Book Value</b>
<b>Land and lease rights</b>	<b>1,691</b>	<b>128</b>	<b>1,563</b>
<b>Plant and equipment</b>	<b>42,978</b>	<b>29,777</b>	<b>13,201</b>
<b>Asset retirement obligation</b>	<b>3,850</b>	<b>2,638</b>	<b>1,212</b>
<b>Mineral properties</b>	<b>47,006</b>	<b>33,146</b>	<b>13,860</b>
	<b>95,525</b>	<b>65,689</b>	<b>29,836</b>
		<b>2010 (\$)</b>	
	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
	<b>77,821</b>	<b>59,064</b>	<b>18,757</b>

- (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 \$ 1,063 (2010 - \$ 1,333) 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.

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**5. Property, Plant and Equipment and Mineral Properties – continued**

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- (c) The Company sold during the current year three exploration drill rigs for a consideration of \$ 1,000 and its additional auxiliary equipment and spare parts and consumables stock.
- (d) Mineral properties include the expenditure incurred for the development of Arenal Deeps and the side and deep extensions of the San Gregorio mine. The accumulated costs were \$ 8,477 (2010 - \$4,117) and \$ 1,551 (2010 - \$ 1,438) respectively. It also includes resource definition work performed in Sobresaliente, Santa Teresa, Picaflor, Zapucay and Argentinita pits in Uruguay.

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**6. Deferred Exploration**

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	2011 (\$)	2010 (\$)
Balance at beginning of year	24,850	12,437
Cash payments for exploration expenditure during the year	11,342	8,317
Acquisition of Fortune Valley	(58)	10,934
Reclassification to mineral properties	(3,561)	(6,224)
Exploration costs written off	(6,911)	(614)
Balance at the end of the year	25,662	24,850

**(a) Farm in agreements:**

The Company has the following outstanding option agreements:

- In January 2008 the Company entered into an option agreement 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. As of May 31, 2011 the Company has complied with the minimum spending required by that date and continues its exploration program.

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.

May 31, 2011 and 2010

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## **6. Deferred Exploration – continued**

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- In October 2009 the Company entered in an option agreement 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. As of May 31, 2011 the Company has complied with the minimum spending requirements and fulfilled the payment obligations requested by that date and continues with its exploration and development program.

### **(b) Farm-out agreements:**

- In May 2011, the Company entered into an Option Agreement with Ferlesol S.A., a 100% Uruguayan subsidiary of Union Mineral Group (UMG), a private company. This agreement provides UMG the right to earn up to 80% interest in the Company's Old Texas, Arroyo Polanco, Casupá Madre, Mal Abrigo, Cerros Negros and Maria Albina projects in Uruguay ("the Assets").

UMG is committed to spend \$ 300 in exploration work within a period of twenty four months to earn 20% in the Assets, and subsequently the right to earn a further 31% by incurring a further \$ 750 in exploration expenditure within the following year. After having reached the 51% interest in the Assets, UMG will have the right to earn an additional 29%, therefore reaching 80% interest, by completing a bankable feasibility study for the Assets within a four years period .

- In May 2010 Gladiator Resources Limited ("Gladiator"), an Australian Stock Exchange ("ASX") listed mineral exploration and development company, exercised its Option Agreement with the Company 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 subject to the execution of a Definitive Agreement detailing the joint venture arrangements.

During the year the Definitive Agreement was executed and accordingly the Company received 450,000 shares of Gladiator with a market value of \$ 90 (Australian Dollars 100,000) calculated using the average trading price of the shares over the preceding five day trading period. Gladiator has already earned its first 20% interest in the Isla Cristalina iron ore, manganese ore and base metal prospects in Uruguay after expending in excess of \$ 1,000 on these prospects. Gladiator may, at its option, earn a further 31% by spending an additional \$ 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 21, 2015.

- 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. The initial commitment of CDN\$ 250,000 has been fulfilled.

May 31, 2011 and 2010

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## 6. Deferred Exploration – continued

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- In June 2010, the Company entered into an Option Agreement with Minerales Cala S.A. (“Minerales Cala”) which provides Minerales Cala the right to earn up to 80% interest on the Company’s Chamizo gold project in Southern Uruguay. Minerales Cala is committed to spend \$150 in exploration work within a period of twenty four months from the option agreement date to earn 51% interest in the project. Subsequently, Minerales Cala will have the right to earn a further 29% by incurring in a further \$350 in exploration expenditure. After Minerales Cala has completed \$500 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 fall below 10%, its interest will convert to a Net Smelter Royalty of 2%.

### (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, 2011 \$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 and attributed to specific projects was impaired as substantive expenditure or further exploration and evaluation activities in those areas is neither budgeted nor planned. As a result an impairment of \$ 6,911 (2010 - \$614) was recognized, including \$ 4,411 related to the Lascano Project in Uruguay.

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 together with expenditures incurred in maintaining mining permits for strategically reasons that have no associated exploration work for a total amount of \$ 1,018 (2010 - \$0).

May 31, 2011 and 2010

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## 6. Deferred Exploration – continued

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Capitalized exploration expenditures of \$3,561 (2010 – \$6,224) were reclassified as an intangible asset under Mineral Properties as they were related to areas in which a mineral resource was determined. The amounts transferred include exploration work for development of Arenal Deeps and San Gregorio extension, and resource definition work for Zapucay, Argentinita, Sobresaliente, Santa Teresa, Ombu, Picaflor and Castrillon pits in Uruguay.

### (e) Exploration performance bonds

The Uruguay mining legislation requires all mining titles to be supported by guarantees to cover the cost 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, 2011 to support exploration activities on tenements granted were approximately \$ 4,114 (2010 - \$ 3,823).

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## 7. Asset Retirement Obligations

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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 weighted average cost of capital of 8.5% (2010 – 8.5%) and an inflation factor of 2.2% (2010 – 2.4%).

The following table summarizes the movements in the asset retirement obligation for the years ended May 31, 2011 and 2010.

	<b>2011 (\$)</b>	2010 (\$)
Balance at beginning of year	<u>2,954</u>	2,862
Changes in cash flow estimates	1,211	(49)
Expenditure incurred in rehabilitation	(1,365)	(14)
Accretion expense	<u>142</u>	155
Balance at end of year	<u><u>2,942</u></u>	<u><u>2,954</u></u>

May 31, 2011 and 2010

## 7. Asset Retirement Obligations – continued

During the year the Company started rehabilitation work related to the San Gregorio's operation in Uruguay performing the closure of certain cells of the existing tailings dam facilities. Management's estimates of future cash flows were revised during the year and cost for the closure of the remaining cells of the tailings dam revised based on the experience provided by the work performed. The liability for the asset retirement obligation on an undiscounted basis is estimated to be approximately \$ 3,406 (2010 - \$ 3,458).

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 (2010 - \$1,500) has been provided by HSBC Bank (Uruguay) S.A.

## 8. Equity Instruments

(a) Capital authorized: Unlimited number of common shares of no par value

(b) Employee stock options: The Company has an option Plan for the 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 starting at the time they are granted.

The weighted average fair values of all stock options granted during 2011 and 2010 were CDN\$1.22 and CDN\$0.91 respectively, estimated as of the date of grant using the Black-Scholes option pricing model with the following average assumptions:

	2011	2010
Expected option life (years)	Range of 2.2 to 2.3	Range of 2.3 to 2.5
Volatility	Range of 114% to 119%	Range of 105% to 106%
Risk-free interest rate	Range of 1.42% to 1.70%	Range of 1.19% to 1.30%
Dividend yield	Nil	Nil

During the year \$ 713 (2010 - \$ 407) of compensation expense was recorded. At May 31, 2011 the aggregate unamortized fair value of unvested stock options granted amounted to \$ 358 (2010 - \$124).

At May 31, 2011 there were 3,822,886 options outstanding, of which 2,312,429 are exercisable (2010 – 2,749,850 and 1,882,517 respectively). The weighted average exercise price of the options outstanding at May 31, 2011 is CDN\$ 1.29 (2009 CDN\$ 2.04)

May 31, 2011 and 2010

**8. Equity Instruments – continued**

The following table summarizes information regarding the Company's outstanding options at May 31, 2011:

	Number of Shares (000's)	Option Price per Share Range CDN \$	Weighted Average Exercise Price CDN \$
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
Forfeited	(2,009)	\$0.60 - \$5.40	\$2.56
Exercised	(363)	\$0.28 - \$0.28	\$0.28
Balance at May 31, 2010	2,750	\$0.38 - \$5.50	\$2.04
Granted	2,105	\$0.395 - \$1.20	\$0.76
Exercised	(444)	\$0.395 - \$0.75	\$0.57
Forfeited	(588)	\$0.38 - \$5.50	\$3.44
Balance at May 31, 2011	<u>3,823</u>	<u>\$0.395 - \$4.77</u>	<u>\$1.29</u>

Outstanding				Exercisable	
Range of option price CDN \$	Options 000s	Weighted average Exercise Price CDN \$	Weighted average remaining contractual life Years	Options 000s	Weighted average Exercise Price CDN \$
0.00 – 0.40	133	0.40	3.92	89	0.40
0.41 – 0.60	394	0.60	2.39	394	0.60
0.61 – 0.74	491	0.61	3.38	327	0.61
0.75 – 1.00	1,917	0.76	4.17	714	0.79
1.00 – 3.00	150	1.20	4.53	50	1.20
3.01 – 4.77	738	3.65	0.89	738	3.65
	<u>3,823</u>	<u>1.29</u>	<u>3.26</u>	<u>2,312</u>	<u>1.64</u>

May 31, 2011 and 2010

**9. Income Taxes**

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

	<b>2011 (\$)</b>	2010 (\$)
Balance beginning of year	4,181	3,001
Recognized future tax income	967	1,180
Balance end of year	<b>5,148</b>	4,181

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

	<b>2011 (\$)</b>	2010 (\$)
(i) Deferred tax asset		
Property plant and equipment	3,924	3,318
Inventories	755	456
Deferred exploration and mineral properties	469	377
Fiscal losses	0	30
Net future income tax asset	<b>5,148</b>	4,181
(ii) Deferred tax liability		
Deferred exploration	1,774	1,774
Net future income tax liability	<b>1,774</b>	1,774

The future tax liability of \$1,774 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 Resources Inc. in the financial year ended May 31, 2010. 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.

(b) Un-recognized tax benefits and exploration expense pool

Tax losses

At May 31, 2011 the Company had non capital loss carry forwards of \$ 27,251 (2010 - \$ 24,076). The losses at gross value by tax jurisdictions expire as shown in the following table:

May 31, 2011 and 2010

**9. Income Taxes – continued**

	Chile	Canada	Uruguay	Barbados
Year to 31 May 2014	0	0	4,462	0
Year to 31 May 2015	0	0	19	0
Year to 31 May 2016	0	0	5,887	0
Year to 31 May 2017	0	0	0	1,094
Year to 31 May 2018	0	0	0	1,451
Year to 31 May 2019	0	0	0	964
Year to 31 May 2020	0	0	0	610
Year May 2026 to May 2031	0	8,362	0	0
No expiration term	4,402	0	0	0
	4,402	8,362	10,368	4,119

Management believes that 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 \$ 2,942 (2010 - \$ 2,954)

Exploration expense pool: In Uruguay, the Company has deferred exploration expenditure which result in available tax pools of \$ 17,415 in Uruguay and \$ 9,683 in Chile (2010 - \$ 13,443 in Uruguay and \$ 1,963 in Chile), which may be deductible against tax derived from future production income.

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

	2011 (\$)	2010 (\$)
Income before taxes	<b>16,002</b>	98
Income tax rate	<b>32%</b>	34%
Expected income tax expense	<b>5,120</b>	33
<i>Tax effect of:</i>		
Effect of lower jurisdictions tax rates	<b>(1,119)</b>	(9)
Inflation adjustment	<b>(684)</b>	(567)
Rehabilitation plan	<b>(316)</b>	0
Foreign exchange	<b>(1,694)</b>	(1,930)
Tax losses for the year not recognized	<b>2,019</b>	627
Other permanent differences	<b>665</b>	543
Benefits granted to Uruguayan investments	<b>(3,935)</b>	0
Income tax provision (recovery)	<b>56</b>	(1,303)

May 31, 2011 and 2010

**9. Income Taxes – continued**

Comprising		
Current income tax (recovery) provision	<b>1,023</b>	(123)
Future income tax (recovery)	<b>(967)</b>	(1,180)
	<u><b>56</b></u>	<u>(1,303)</u>

**10. 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.

	2011 (\$)				
	Gold	Exploration Uruguay	Exploration Chile	Corporate	Total
Net sales	78,734	0	0	0	78,734
Amortization and depletion	7,865	348	6	0	8,219
Deferred exploration expenses written off	0	6,911	0	0	6,911
Net interest loss and rehabilitation accretion	248	0	21	0	269
Income tax provision	56	0	0	0	56
Net income (loss)	27,761	(9,255)	(144)	(2,416)	15,946
Property, plant and equipment	29,398	132	45	261	29,836
Deferred exploration	0	6,375	19,287	0	25,662
Capital expenditure	15,639	0	56	261	15,956

	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 income (loss) and rehabilitation accretion	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

May 31, 2011 and 2010

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## 11. Financial Instruments

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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. There were no derivative arrangements outstanding as at May 31, 2011.

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

May 31, 2011 and 2010

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**11. Financial Instruments – continued**

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- (d) 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 counterparty 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.
- (e) 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.
- (f) Insurance
- The Company purchases limited discretionary insurance to cover catastrophic property damage, business interruption and liability risk.
- (g) 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, 2011:

Financial Instrument	Level 1	Level 2	Level 3	Total
Cash	0	14,178	0	14,178
Receivables	0	2,473	0	2,473
Short term investments	90	0	0	90
Restricted cash	0	223	0	223
Total	90	16,874	0	16,964

May 31, 2011 and 2010

## 12. Statement of Cash Flows

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

	2011 (\$)	2010 (\$)
Accounts receivable	(122)	567
Prepaid expenses	146	(288)
Inventories	727	(448)
Accounts payable and accrued liabilities	852	2,823
	<u>1,603</u>	<u>2,654</u>

(b) Supplementary cash flow information:

	2011 (\$)	2010 (\$)
Income tax paid	98	95
Interest paid	99	98

## 13. Basic and Diluted earnings per share

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

	2011	2010
<b>Basic earnings per share</b>		
Numerator		
Net earnings available to shareholders	15,946	1,401
Denominator		
Weighted average shares outstanding	65,039,779	55,296,537
Basic earnings per share (cents per share)	0.24	0.03

May 31, 2011 and 2010

**13. Basic and Diluted earnings per share – continued**

	<b>2011</b>	2010
<b>Diluted earnings per share</b>		
Numerator		
Net earnings available to shareholders	<b>15,946</b>	1,401
Denominator		
Weighted average shares outstanding	<b>65,039,779</b>	55,296,537
Potential net incremental issue of shares from stock options	<b>648,656</b>	25,706
Shares outstanding plus assumed conversions	<b>65,688,435</b>	55,322,243
 Diluted earnings per share (cents per share)	 <b>0.24</b>	 0.03

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, 2011 was CDN\$ 0.89 (2010 - CDN\$0.44).