



Orosur Mining Inc.
(formerly Uruguay Mineral Exploration Inc.)
Consolidated Financial Statements
For the years ended May 31, 2010 and 2009

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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 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

Orosur Mining Inc.
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

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

Orosur Mining Inc.

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

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

Orosur Mining Inc.
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)
<i>Adjustments for :</i>		
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
	<u>9,021</u>	<u>9,404</u>
Net change in non-cash working capital balances (Note 16)	<u>2,654</u>	<u>(2,355)</u>
	<u>11,675</u>	<u>7,049</u>
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)
	<u>47</u>	<u>(576)</u>
Investing activities		
Purchase of property, plant and equipment and mineral properties	(6,459)	(5,472)
Asset sales	2,717	
Exploration expenditure	(8,785)	(10,106)
	<u>(12,527)</u>	<u>(15,578)</u>
Decrease in cash	(805)	(9,105)
Cash at the beginning of year	<u>9,496</u>	<u>18,601</u>
Cash at the end of year	8,691	9,496

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

Orosur Mining Inc.
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	<u>64,796</u>	<u>42,344</u>	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		<u>4,647</u>		4,239
Accumulated other comprehensive income				
Balance at beginning of year		(19)		(19)
Movement for the year		0		0
Balance at end of year		<u>(19)</u>		(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		<u>15,088</u>		13,687
Shareholders' equity at end of year		<u>62,060</u>		52,549

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

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.

May 31, 2010 and 2009

3. Significant Accounting Policies - continued

- (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 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.

May 31, 2010 and 2009

3. Significant Accounting Policies - continued

- (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 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.

May 31, 2010 and 2009

3. Significant Accounting Policies - continued

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.

May 31, 2010 and 2009

3. Significant Accounting Policies - continued

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.

May 31, 2010 and 2009

3. Significant Accounting Policies - continued

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

- (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 these financial statements.

May 31, 2010 and 2009

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	<u>8,765</u>

May 31, 2010 and 2009

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

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	<u>8,765</u>	

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

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

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).

Orosur Mining Inc.
Notes to Consolidated Financial Statements
Thousands of United States Dollars, except where indicated

May 31, 2010 and 2009

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

	Cost	2010 (\$) 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
		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.

May 31, 2010 and 2009

8. Property, Plant and Equipment and Mineral Properties – continued

- (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 Deeps 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.

May 31, 2010 and 2009

9. Deferred Exploration – continued

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 \$AUD 100,000 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.

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9. Deferred Exploration – continued

(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).

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).

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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.

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.

May 31, 2010 and 2009

11. Equity Instruments - continued

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 Range CDN \$	Weighted Average 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	<u>(670)</u>	\$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	<u>(2,009)</u>	\$0.60 - \$5.40	\$2.56
Balance at May 31, 2010	<u>2,750</u>	\$0.38 - \$5.50	\$2.04

May 31, 2010 and 2009

11. Equity Instruments - continued

Range of option price CDN \$	Outstanding			Exercisable	
	Options 000s	Weighted average Exercise Price CDN \$	Weighted average remaining contractual life Years	Options 000s	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>	2.04	2.82	<u>1,882</u>	2.52

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:

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

May 31, 2010 and 2009

13. Income Taxes – continued

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

	<u>2010 (\$)</u>	<u>2009 (\$)</u>
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	<u>4,181</u>	<u>3,001</u>

- (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:

	<u>Chile</u>	<u>Canada</u>	<u>Uruguay</u>	<u>Barbados</u>
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
	<u>3,328</u>	<u>4,548</u>	<u>13,316</u>	<u>2,884</u>

May 31, 2010 and 2009

13. Income Taxes – continued

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.

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

	<u>2010 (\$)</u>	<u>2009 (\$)</u>
Income before taxes	98	(15,034)
Income tax rate	34%	34%
Expected income tax expense	33	(5,111)
<i>Tax effect of:</i>		
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)

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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 (\$)				Total
	Gold	Exploration Uruguay	Exploration Chile	Corporate	
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)	71	0	(2)	0	69
Income tax recovery	1,303	0	0	0	1,303
Net income and debt accretion 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

	2009 (\$)				Total
	Gold	Exploration Uruguay	Exploration Chile	Corporate	
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 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

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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 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

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15. Financial Instruments -continued

- (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 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.
- (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.

(e) 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

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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)
	<u>3,701</u>	<u>(1,047)</u>	<u>2,654</u>	<u>(2,355)</u>

(*) See Note 5

(b) Supplementary cash flow information:

	2010 (\$)	2009 (\$)
Income tax paid	<u>95</u>	42
Interest paid	<u>98</u>	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		
Numerator		
Net earnings (loss) available to shareholders	1,401	(14,355)
Denominator		
Weighted average shares outstanding	55,296,537	48,671,435
Basic earnings (loss) per share(cents per share)	0.03	(0.29)

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17. Basic and Diluted earnings per share – continued

	<u>2010 (\$)</u>	<u>2009 (\$)</u>
Diluted earnings (loss) per share		
Numerator		
Net earnings (loss) available to shareholders	1,401	(14,355)
Denominator		
Weighted average shares outstanding	55,296,537	48,671,435
Potential net incremental issue of shares from stock options	<u>25,706</u>	<u>177,368</u>
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.
