

NEWS RELEASE

URUGUAY MINERAL EXPLORATION INC ANNOUNCES RESULTS FOR THE QUARTER AND SIX MONTHS ENDED NOVEMBER 30, 2006

Summary of Results

- Gold production was 20,059 ounces for the second quarter with half year production of 39,234 ounces, consistent with the revised target of 39,000 stated in the Company's November 7, 2006 press release. Production for December was 9,250 ounces; consistent with the Company's reforecast of 95,000 ounces for the full year.
- Cash costs were \$US 345 per ounce for the second quarter and \$US 340 for the first half compared to \$US 182 and \$US 197 for the corresponding quarter and half of the prior financial year. The increase in costs comes from lower production, a higher strip ratio and unit cost increases.
- Net profit after tax for the second quarter was \$ 1,751,000 or \$ 0.036 basic earnings per share with half year net profit of \$ 4,318,000 or \$0 .090 basic earnings per share.
- Cash flow from operations before non-cash working capital movements was \$ 3,677,000 for the second quarter and \$ 7,180,000 for the first half.
- The higher average realized gold price for the second quarter of \$ 565 per ounce resulted in increased sales of \$ 12,433,000 when compared to the second quarter of the prior financial year, with an average sales price of \$ 456 per ounce and sales of \$ 11,326,000.
- An interim dividend of C\$2.0 cents per share will be paid in April 2007.

Tony Shearer, Chairman commented: "The Board believes that Uruguay is a highly prospective country and today we have a team with the right skills and the right attitudes. The period June to September has been one of significant change and we have brought together a strong Management team under our new Chief Executive David Fowler with two new external recruits, respectively as VP of Exploration and CFO, and an internal promotion to VP of Operations. This new team has had little time to make an impact on reserves and resources as at 1st November, 2006. They have focused their effort on completing new estimates of Measured and Indicated resources using independent consultants. The decision to appoint independent consultants was taken by the new management team in July and has led to more conservative assumptions with an overall reduction in total stated reserves and resources. In the half year the new Management team has also carried out essential work which will enable us in 2007 to convert further resources into reserves, and to expand the declared resources. Exploration and development work is intense, painstaking and challenging: the team will need time to deliver results. I am confident that they will do so."

		<u>Q2 2007</u>	<u>Q2 2006</u>	<u>H1 2007</u>	<u>H1 2006</u>
Operating Review					
Gold produced	<i>Ounces</i>	20,059	25,323	39,234	50,486
Average cash cost	<i>US\$/oz</i>	345	182	340	197
Average price received	<i>US\$/oz</i>	565	456	566	443
Financial Review					
Revenue	<i>US\$ '000s</i>	12,433	11,326	24,610	23,047
Net income (loss) for the period	<i>US\$ '000s</i>	1,751	1,944	4,318	4,184
Cash flow from operations*	<i>US\$ '000s</i>	3,677	5,121	7,180	9,310
Basic earnings per share	<i>US\$</i>	0.036	0.042	0.090	0.091

* before non-cash working capital movements

Summary of Significant Events

External consultants appointed to evaluate Reserves and Resources

Golder Associates and Mine Development Associates were appointed in July 2006 to conduct an independent evaluation of reserves and resources following the appointment of David Fowler as Chief Executive. At 1 November 2006 total reserves were 5,671,000 tonnes at 1.77 g/t (322,000 contained gold ounces) and Measured and Indicated Resources, inclusive of reserves, were 13,591,000 tonnes at 1.51 g/t (659,400 ounces). At the same date there was an Inferred Resource of 5,619,000 tonnes at 1.4 g/t (250,800 ounces). The previous disclosure as at 1st June 2005 had total reserves of 5,400,000 tonnes at 2.41 g/t (417,000 ounces) with Measured and Indicated Resources, inclusive of reserves, being 12,500,000 tonnes at 1.94 g/t (780,300 ounces). The Inferred Resource as at 1st June 2005 was 12,975,000 tonnes at 1.23 g/t (513,000 ounces). The reduction in resources relates to ore mined between June 2005 and November 2006, the use of more conservative and robust parameters relating to grades in the current resource estimates, and a significant reduction of Inferred Resources for Sobresaliente (215,000 ounces at 31 May 2005) due to new drilling and Zapuchay (115,000 ounces at 31 May 2005) where it was considered that additional exploration work is required to justify the inferred resource.

UME now unhedged

The Group is unhedged as the last hedge contract was filled in November 2006. At 30 November 2006 the Group had \$ 5,802,000 of cash and \$ 2,319,000 of interest bearing convertible debt.

Diversion of the Arroyo Corrales

A public hearing to evaluate the diversion of the Arroyo Corrales was completed during November 2006. Review of the project by the relevant authorities is nearing completion and the company anticipates approval of the project in the coming month. A revised project plan based on this schedule has been prepared to allow for continued ore supply from Arenal throughout 2007.

New appointments

Pablo Ferrari has been appointed to the position of Chief Financial Officer and will commence employment at UME at the beginning of February 2007. Terry Butler was promoted to the position of Operations Manager during the quarter.

Increasing Gold Resources

Drilling at Argentinita has defined an initial Indicated Resource of 1,446,000 tonnes at 1.45 g/t (68,000 ounces) and an Inferred Resource of 588,000 tonnes at 1.42 g/t (27,000 ounces). Additional step out drilling along strike and down dip is planned for the coming half to expand this resource. Mine planning in the coming half will focus on defining a reserve at Argentinita by mid 2007.

Ausenco has been appointed to evaluate process plant expansion and heap leach processing with scoping studies expected to be completed in the current quarter with metallurgical testing then progressing immediately thereafter. Golder Associates has been appointed to evaluate the potential for underground mining.

A detailed ground magnetic survey covering the western portion of the Isla Cristallina, including the San Gregorio and Argentinita districts, and an evaluation of the structural setting will be used to more effectively target exploration activities in the San Gregorio/Arenal and Argentinita/Zapucay districts in the coming half.

A detailed ground magnetic survey at Casupa has identified extensions to the structure to the North-West and South East of the previously drilled mineralization. The next phase of drilling to confirm the extent of mineralization along this structure will commence during the third quarter.

During the quarter the Company applied for a claim over the Mahoma property in the Florida Belt. This property previously produced approximately 68,000 tonnes at 7g/t grade between 1992 and 1996. There are currently four known quart veins at Mahoma, the largest of which extends for approximately 1,000 metres. Evaluation of the project will commence in the second half.

Non-gold exploration

Stratigraphic drilling has commenced at the Lascano project with the first hole at 530 metres. No mineralization has been encountered to date. Completion of the first hole and the drilling of two more holes, together with modeling of the results is expected to be reported in the third quarter report to be released in mid April.

Chairman's Statement

Our half-year results to 30 November 2006 report a similar profit to the prior financial year, but are attributable to higher average sales prices from lower production during the half. Our December production of 9,250 ounces confirms that we are on track to lift our production in the second half to achieve the full year reforecast of 95,000 ounces. We filled the last open hedge contract in November, and the Company is now unhedged with no net debt.

Reconciliation of Cash Costs H1 2007 to H1 2006	
	\$US/Ounce
Cash cost per ounce H1 2006	\$197
Change in strip ratio	\$20
Other cost increases	\$47
Cash cost before impact of lower grades	\$264
Reduced production from lower grade	76
Cash cost per ounce H1 2007	\$340

Operating costs have increased to \$340 for the half-year compared with \$197 for the corresponding prior year period. A reconciliation of the variance between the two cash cost numbers is shown above. This demonstrates that \$76 of the cost increase for the half was attributable to lower production of 39,234 ounces resulting from lower grades, and that the higher strip ratio being used in the current financial year accounts for the remaining difference, along with other cost increases that are further discussed in the Group's Management Discussion and Analysis for 30 November 2006.

Our Strategy

The company has redefined its strategy to focus on creating shareholder value through growing gold production. Initially we aim to maintain production at approximately 100,000 ounces per annum, and then to grow into a mid-tier gold producer over five years. Setting these objectives means that we are now focused on the key challenge of increasing gold reserves, through successful exploration and alternative mining and processing methods. Accordingly, we have put in place plans to farm out or divest our base metals and diamond prospects going forward.

We have prepared data packages for the base metal projects and sent these out to interested parties. Between now and March 2007 we will be assessing the level of interest and deciding how to progress these opportunities. Additional work on the most prospective of our diamond areas is planned for the current quarter and we are following a similar approach of looking for a farm in partner.

Senior Management Changes

Over the past six months, UME has made significant changes to its management team with a younger, committed team ready to take the Company to the next stage of its development. David Fowler was appointed Chief Executive Officer on 15 May 2006 and on 15 July 2006, George Schroer joined as Vice President of Exploration. We have recently appointed Pablo Ferrari as our new Chief Financial Officer with effect from 1 February 2007. Pablo has previously worked in senior financial positions for leading energy companies in Argentina. Terry Butler was promoted during the half year to Operations Manager, where he has assumed day-to-day control of San Gregorio, allowing John Sadek, as Vice President of Operations, to focus on our development and growth. We have now filled all the remaining vacant senior management positions with the Group.

Management and workforce

A key element in our ability to achieve our growth strategy for our gold business will be our ability to keep costs down and to train and develop our workforce to increase operational effectiveness. As a result, during the half we embarked on the first stage of a senior management training programme and completed an evaluation of workforce's skills and training needs. We have also begun to take advice from specialist industry consultants to help us improve our operating practices and to transfer skills to local managers.

Resources and reserves

Golder Associates and Mine Development Associates were appointed in July 2006 to conduct an independent evaluation of reserves and resources following the appointment of our new Chief Executive and his implementation of evaluation policies on a more conservative basis.

At 1 November 2006 UME had Measured and Indicated Resources of 13,591,000 tonnes at 1.51 g/t, equal to 659,400 contained gold ounces. This compares to 12,500,000 tonnes at 1.94 g/t equal to 780,300 ounces of contained gold announced in the last statement published as at 1 June 2005. In the same period, Inferred Resources have reduced from 12,975,000 tonnes at 1.23 g/t (513,000 ounces) to 5,619,000 tonnes at 1.4 g/t (250,800 ounces). The major reasons for the fall are the 325,000 ounce reduction in Inferred Resources for Sobresaliente and Zapuchay and material mined during the intervening period.

In estimating the November 1, 2006 resource, consideration has been given to the new exposure draft on Inferred Resources published by the Australian Joint Ore Reserves Committee in August of 2006. The exposure draft significantly tightens the definition of material that can be classified as inferred resources. At Sobresaliente a new Indicated and Inferred resource with significantly lower tonnes was estimated following drilling and re-assessment of the geological model for the deposit. At Zapuchay it was determined that additional work was required to confirm the inferred resources and until this was performed they should be removed. We regard the area around Zapuchay and Argentinita as particularly promising, and whilst it is disappointing that at this stage we cannot include much resource from it, we are concentrating on developing its resources.

This independent estimation has provided valuable input into the potential of each of the deposits and the steps needed to convert resources to reserves. Over the coming year we will focus on completing the studies and further exploration to advance this objective.

In recognition of the level of specialist expertise required to prepare reserve and resource information, the Board has decided to form a Reserves and Resources Committee during the coming half. Bill Lindqvist's considerable experience in this area makes him ideal to lead the committee and more specifically to define its remit.

Exploration to extend resources

Over the past six months we have focused on ensuring that we have the people, equipment, data and supplier resources to deliver on our objectives. Specific objectives for project areas have been established, responsibilities for project areas have been clearly assigned to senior geologists and support services such as drilling have been set up as separate functions.

While the past 6 months has been a period of consolidation, I am pleased to report that George Schroer is bringing a new level of professionalism to the exploration process and is building a strong team to accelerate progress. We have managed to recruit two experienced expatriate geologists (one to work in the eastern part of the Isla Cristallina belt, and one to work in the Florida and Dom Feliciano belts) to complement our developing Uruguayan staff. We have advanced considerably in how we collect, organise and use our data and have made important progress in improving quality assurance processes and planning work programmes for the 2007 calendar year.

Drilling in the current half was focused on infill drilling of resources, rather than expansions. This should progressively change over the next half with the focus changing to resource expansion and testing of new targets. A new diamond drill rig was delivered in the second quarter and is now fully operational and we expect to commission a second DM45 reverse circulation drill rig this month. Progressively during 2007 we will also look to increase production from our drill fleet by working a second shift.

The key to new success in the Isla Cristallina belt is to understand the mineralising events that originally created the gold deposits in the belt and to look for the structures that are consistent with these mineralising events. A very experienced independent structural Geologist, Rod Holcombe has been contracted to help us with this evaluation and he completed his first 3 week field visit in November. Concurrently we also started a detailed ground magnetic survey over the western portion of the belt. Both of these initiatives will provide new information and ideas that will be critical to renewed success in 2007.

Active gold exploration programmes on the eastern half of the Isla Cristallina belt, the Florida belt and the Dom Feliciano belt restarted during the half. While work to date has focused on data compilation and reconnaissance it will progressively change during 2007 as we start to drill test some of key projects such as Crucera and Presidente Terra.

The work to drill three holes at Lascano has started and we expect to announce our initial findings in the third quarter report due to be released in mid April. The Lascano anomaly covers a very large area of ground, approximately 70 kilometres by 30 kilometres. Accordingly the initial drill holes are targeted at stratigraphic information, not mineralisation. This information we collect will confirm the nature of geographical structures and the types of rocks that are causing the anomaly to enable us to refine our conceptual model.

Dividend

It is the Company's intention to declare an interim dividend of C\$2.0 cents per share which will be paid on 12 April 2007 to shareholders on the register on 22 March 2007. This will cost a total of C\$ 962,000 and compares with the dividend of C\$3.5 cents paid on 27 October 2006. It is the Board's intention to recommend to the Annual General Meeting that a final dividend is paid in October 2007.

Summary

Tony Shearer, Chairman commented: "The Board believes that Uruguay is a highly prospective country and today we have a team with the right skills and the right attitudes. The period June to September has been one of significant change and we have brought together a strong Management team under our new Chief Executive David Fowler with two new external recruits, respectively as VP of Exploration and CFO, and an internal promotion to VP of Operations. This new team has had little time to make an impact on reserves and resources as at 1st November, 2006. They have focused their effort on completing new estimates of Measured and Indicated resources using independent consultants. The decision to appoint independent consultants was taken by the new management team in July and has led to more conservative assumptions with an overall reduction in total stated reserves and resources. In the half year the new Management team has also carried out essential work which will enable us in 2007 to convert further resources into reserves, and to expand the declared resources. Exploration and development work is intense, painstaking and challenging: the team will need time to deliver results. I am confident that they will do so."

Tony Shearer
Chairman

Statement on Reserves and Resources

Uruguay Mineral Exploration Inc. (UME) discloses the following update of its Mineral Resources and Mineral Reserves as at 1 November 2006. These Mineral Resources and Mineral Reserves, as well as the terms used in this disclosure, are fully compliant with NI 43-101 requirements and CIM Definition Standards.

UME Mineral Resources as at 1 November 2006 †					
Deposit	Cut-Off (g/t Au)	Tonnes	Grade (g/t Au)	Contained Ounces	Note
Measured Resources					
Arenal	0.5	1,204,000	2.58	100,000	2
San Gregorio	0.5	278,000	0.94	8,300	2
Santa Teresa	0.5	497,000	1.14	18,200	2
Total Measured Resources		1,979,000	1.99	126,500	
Indicated Resources					
Arenal	0.5	5,741,000	1.51	279,100	2
San Gregorio	0.5	1,850,000	1.50	89,000	2
Santa Teresa	0.5	1,434,000	1.09	50,200	2
Ombú	0.5	687,000	1.33	29,400	1
Argentinita	0.5	1,446,000	1.45	67,400	1
Sobresaliente	0.7	431,000	1.16	16,100	1
Stockpiles	0.5	23,000	2.11	1,600	3
Total Indicated Resources		11,612,000	1.43	532,800	
Total Measured & Indicated		13,591,000	1.51	659,300	
Inferred Resources					
Arenal	0.5	2,983,000	1.1	107,000	2
San Gregorio	0.5	115,000	1.9	6,900	2
Rieles/East Extension	0.5	1,545,000	1.6	78,200	3
Santa Teresa	0.5	7,000	0.8	200	2
Ombú	0.5	38,000	0.90	1,100	1
Argentinita	0.5	588,000	1.42	26,800	1
Sobresaliente	0.7	61,000	0.92	1,800	1
Vetas	0.5	282,000	3.2	28,700	3
Total Inferred Resources		5,619,000	1.4	250,700	

UME Mineral Reserves as at 1 November 2006 †‡					
Deposit	Cut-Off (g/t Au)	Tonnes	Grade (g/t Au)	Contained Ounces	Note
Proven Reserves					
Arenal	0.5	1,128,000	2.57	93,200	4
San Gregorio	0.5	156,000	0.94	4,700	4
Santa Teresa	0.5	269,000	1.24	10,700	4
Total Proven Reserves		1,553,000	2.18	108,600	
Probable Reserves					
Arenal	0.5	2,249,000	1.8	128,800	4
San Gregorio	0.5	1,059,000	1.6	53,800	4
Santa Teresa	0.5	787,000	1.2	29,200	4
Stockpiles	0.5	23,000	2.1	1,600	4
Total Probable Reserves		4,118,000	1.6	213,400	
Total Mineral Reserves		5,671,000	1.77	322,000	5

Notes:

† - Totals may not be exact due to rounding

‡ - Mineral Reserves are completely within the stated Mineral Resources with mining factors applied.

1 - Qualified Persons: Steven Ristorcelli (C.P.Geo) of Mine Development Associates (MDA) and Peter Ronning (P.Eng) an associate of MDA.

2 - Qualified Person for Mineral Resources: Dr William John Shaw of Golder Associates

3 - Qualified Person for Mineral Resources: George Schroer of UME Inc.

4 - Qualified Person for Mineral Reserves: John Sadek of UME Inc.

5 - Mineral Reserves include 2.6Mt @ 1.9gpt that are contingent upon governmental permission to divert the Corrales Stream.

UME will publish a Technical Report and supporting reference documents within 45 days in accordance with NI 43-101 requirements.

Highlights of the updated Mineral Resources and Mineral Reserves:

- UME has engaged new independent consultants to estimate all significant Mineral Resources.
- The current update represents an increase in combined Measured and Indicated Resources of 1,965,000 tonnes since the previous, corrected position.
- The independent consultants have applied more conservative classifications in comparison to those previously applied by UME. Although mineralization exists at Castrillón, it has been removed since it is not material to the Company's position. Zapucay Inferred Resource has been removed pending addition exploration. The Sobresaliente Inferred Resource has undergone significant reduction following additional exploration that invalidated the previous geological conceptual model.
- Since the last disclosure (June 2005), 98,700 tonnes at 2.60 gpt have been mined and processed from Vetas in the San Gregorio operations. Ore from these supplemental sources will continue into the near future and their current estimate is listed as an Inferred Resource. It is anticipated that these sources will never receive sufficient geoscientific evaluation to convert them to higher categories of Resources or to Reserves prior to excavation.
- Since the last disclosure total Mineral Reserves have increased by an equivalent 271,000 tonnes despite actual production of 1,795,000 tonnes. The replaced grade, however is lower than previous averages.
- As shown in Note 5 of the Mineral Reserves tabled above, approximately 2.6Mt of ore at Arenal are only available with the diversion of a small section of Arroyo Corrales. All ministerial submissions were finalised

during 2006 and the public review process has completed without formal objections. Government ministries and the local community are strongly supportive of this expansion. Permission to commence this diversion is anticipated within the next two months.

- A gold price of US\$450 per ounce has been used in the estimation of Mineral Reserves.

Qualified Person's Statement

The technical information presented in this press release has been reviewed and verified by Mr John Sadek, Vice President Operations and a Mining Engineer, and Mr. George Schroer Vice President Exploration and a Certified Professional Geologist. Mr. Schroer is the Qualified Person for the purposes of the AIM Guidance Note on Mining, Oil and Gas Companies dated March 2006. Mr. Schroer has a Bachelor of Science in Geology from Colorado State University and is a member of SEG and AIPG. He has over 20 years of international experience in exploration. Mr. Sadek is the Qualified Person for the purposes of the AIM Guidance Note on Mining, Oil and Gas Companies dated March 2006. Mr Sadek has a Bachelor of Engineering (Mining) from the University of Sydney and is a member of the AusIMM and SME. He has over 20 years of international experience in mining.

Conference Call Details

The management of Uruguay Mineral Exploration inc. will host a conference call to discuss the results at 11.00 EST, 16.00 GMT on Thursday 11th January 2007. The dial-in numbers are: +44 (0)20 7365 1851 / +1 514 315 1009 and participants should quote Uruguay Mineral Exploration. A live audio stream of the conference call can also be accessed at www.uruguayminerals.com. Please dial in / log on five minutes prior to the start of the call to allow time for registration. A recording of the conference call will be available for 7 days after the conference call, commencing approximately 1 hour after the live call has finished, on : +44 (0)20 7806 1970 / +1 718 354 1112, access code: 9587124#. A recording will also be available at www.uruguayminerals.com.

ENDS

The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this news release.

Editor's note: Uruguay Mineral Exploration Inc. is a gold producer and exploration company focussed on identifying and developing mineral opportunities in Uruguay. UME is a fully integrated mining company, possessing the skills necessary to explore and develop its discoveries. The Company operates the only producing gold mine in the country (San Gregorio), and is also the leading mineral exploration company in Uruguay having assembled an exploration portfolio based on gold, base metals (copper, nickel, lead, zinc) and diamond prospects. In the first half of 2003, the Company discovered the Arenal deposit, currently the largest known gold resource in Uruguay.

Uruguay Mineral Exploration Inc. is quoted in Canada (TSXV) and London (AIM) and Collins Stewart Limited is the Nominated Adviser and broker.

For further information, please contact:

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Uruguay Mineral Exploration Inc.
Consolidated Interim Financial Statements
For the six month period ended
November 30, 2006
(Unaudited - prepared by management)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended 30 November 2006.

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Uruguay Mineral Exploration Inc.
Consolidated Balance Sheets
(Unaudited)

(Thousands of United States Dollars, except where indicated)

	As at November 30, 2006	As at May 31, 2006	As at November 30, 2005
Assets		\$	\$
Current assets			
Cash and cash equivalents	5,802	8,931	6,287
Accounts receivable	3,446	1,699	2,777
Inventories	9,037	8,108	7,360
Prepaid expenses and other	725	612	824
	<u>19,010</u>	19,350	17,248
Property, plant and equipment (Note 2)	23,473	22,896	24,428
Deferred exploration costs (Note 3)	14,603	11,184	6,973
Future income tax	42	1,855	934
Deferred stripping and other non current assets (Note 4)	5,597	4,723	2,335
	<u>62,725</u>	60,008	51,918
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	6,628	5,076	4,711
Current portion of long term debt (Note 5)	1,239	2,058	4,901
Unrealized fair value of derivatives (Note 10)	-	2,317	1,592
	<u>7,867</u>	9,451	11,204
Future income tax liabilities	1,486	1,486	-
Long term debt (Note 5)	1,080	2,167	2,876
Asset retirement obligation	1,665	1,665	1,602
Total liabilities	<u>12,098</u>	14,769	15,682
Equity instruments (Note 6)	34,152	32,858	30,310
Contributed surplus (Note 7)	2,896	1,625	1,569
Cumulative translation adjustment	(19)	(19)	(19)
Retained Earnings / (Deficit)	13,598	10,775	4,376
Total Shareholders' Equity	<u>50,627</u>	45,239	36,236
Total Liabilities and Shareholders Equity	<u>62,725</u>	60,008	51,918

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

Uruguay Mineral Exploration Inc.
Consolidated Statements of Income and Retained Earnings
(Unaudited)

(Thousands of United States Dollars, except where indicated)

	Three months ended November 30		Six months ended November 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Sales	12,433	11,326	24,610	23,047
Net profit interest	-	(329)	-	(635)
Net Sales	12,433	10,997	24,610	22,412
Operating expenses	7,676	4,970	14,425	10,730
Amortization, depletion and accretion	1,909	2,567	3,924	4,316
Other expenses				
Compensation expense – stock based	229	158	480	158
Fair value adjustment for derivatives	(1,070)	1,215	(2,317)	1,412
General and administrative	1,053	655	1,989	1,247
Interest and financing fees	82	81	170	174
	294	2,109	322	2,991
Income before other items and taxes	2,554	1,351	5,939	4,375
Other items				
Gain on settlement of net profit interest	-	888	-	888
Interest and other income/(expense)	146	(130)	237	(98)
Foreign exchange loss	(95)	(28)	(158)	(46)
Income before taxes	2,605	2,081	6,018	5,119
Income taxes	854	137	1,700	935
Net income for the period	1,751	1,944	4,318	4,184
Retained earnings, beginning of period	13,342	2,432	10,775	192
Dividend distribution	(1,495)	-	(1,495)	-
Retained earnings, end of period	13,598	4,376	13,598	4,376
Basic earnings per share (Note 6(e))	0.036	0.042	0.090	0.091
Diluted earnings per share (Note 6(e))	0.036	0.039	0.089	0.085
Basic weighted average no. of shares	48,081,935	46,263,746	48,026,766	46,227,580
Diluted weighted average no. of shares	48,689,642	49,889,413	48,634,766	49,507,913

Uruguay Mineral Exploration Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(Thousands of United States Dollars, except where indicated)

	Three months ended November 30		Six months ended November 30	
	2006	2005	2006	2005
		\$		
Operating activities				
Net income for the period	1,751	2,106	4,318	4,346
Adjustments for:				
Amortization, depletion and accretion	1,909	2,567	3,924	4,316
Future income taxes	1,588	(393)	1,814	405
Deferred stripping	(659)	(646)	(1,013)	(1,441)
Fair value adjustment of derivatives	(1,070)	1,215	(2,317)	1,412
Compensation expense – stock based	229	158	480	158
Other	(71)	114	(26)	114
	<u>3,677</u>	<u>5,121</u>	<u>7,180</u>	<u>9,310</u>
Net change in non-cash working capital balances (Note 9)	(5)	(2,327)	(283)	(1,996)
	<u>3,672</u>	<u>2,794</u>	<u>6,897</u>	<u>7,314</u>
Financing activities				
Proceeds from the issue of share capital, net of costs	17	36	1,168	204
Payments of finance lease	(54)	-	(86)	-
Dividend payment	(1,495)	-	(1,495)	-
	<u>(1,532)</u>	<u>36</u>	<u>(413)</u>	<u>204</u>
Investing activities				
Refundable deposits	-	(3)	-	(3)
Purchase of property, plant and equipment	(3,022)	(3,585)	(6,421)	(6,252)
Payments for deferred exploration	(1,861)	(687)	(3,237)	(1,127)
Proceeds on sale of assets	-	350	45	650
	<u>(4,883)</u>	<u>(3,925)</u>	<u>(9,613)</u>	<u>(6,732)</u>
Increase (decrease) in cash	(2,743)	(1,095)	(3,129)	786
Cash and cash equivalents, beginning of period	<u>8,545</u>	<u>7,382</u>	<u>8,931</u>	<u>5,501</u>
Cash and cash equivalents, end of period	5,802	6,287	5,802	6,287

Uruguay Mineral Exploration Inc.
Notes to Consolidated Interim financial Statements
(Unaudited)

(Thousands of United States Dollars, except where indicated)

November 30, 2006

1. Significant Accounting Policies

The unaudited interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The reporting currency used is the United States dollars which is also the Company's functional currency. 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 adjusted to reflect all adjustments required to reflect a fair presentation of these statements in accordance with the accounting policies of the company. These interim consolidated financial statements should be read in conjunction with the most recent annual consolidated financial statements for the year ended May 31, 2006 for detailed note disclosures. The significant accounting policies follow that of the most recently reported annual consolidated financial statements.

(a) Deferred Stripping Costs

Using the deferred stripping accounting method mining costs associated with waste rock removed in excess of the life of mine average are deferred and charged to operations on the basis of the average strip ratio for the life of the mine. When the cumulative strip ratio is less than the life of mine average, a provision for future stripping is made.

The average strip ratio for the mine life was estimated to May 31 2006 to be 4.34:1. During the period the strip ratio was revised to 5.59:1. The waste to ore ratio and the remaining life of the mine are both regularly assessed by management to ensure the carrying value and rates of depletion are appropriate.

The amount charged to operating costs is therefore subject to management's ability to estimate the stripping ratio over the life of mine. Any changes to this estimate could have a material affect on the financial statements.

2. Property, Plant and Equipment

	November 30,2006		
	Cost	Accumulated Amortization	Net Book Value
Land and lease rights	\$ 2,030	-	\$ 2,030
Plant and equipment	22,885	9,721	13,164
Mineral properties	14,778	6,499	8,279
	\$ 39,693	16,220	\$ 23,473
	May 31 2006		
	Cost	Accumulated Amortization	Net Book Value
Land and lease rights	\$ 1,895	\$	\$ 1,895
Plant and equipment	20,362	7,474	12,888
Mineral properties	13,218	5,105	8,113
	\$ 35,475	12,579	22,896

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2. Property, Plant and Equipment - cont'd

	November 30 2005		
	Cost	Accumulated Amortization	Net Book Value
Land and lease rights	\$ 671	-	\$ 671
Plant and equipment	12,880	1,349	11,531
Mineral properties	7,423	194	7,229
	<u>\$ 20,974</u>	<u>1,543</u>	<u>\$ 19,431</u>

- (a) During October 2005, the Company acquired the 10% net profit interest over key tenements within the Minas de Corrales project, including the tenement on which Arenal deposit is located. This agreement terminates UME's obligation to pay the NPI holder 10% of the net profits derived from gold produced from the NPI area as part of the acquisition of the tenements. An amount of \$ 3,500 is shown under mineral properties and is amortized using the unit of production method based on the estimated life of mine. Another \$ 383 is included under Deferred Exploration and is not being amortized as they are related to key tenements in exploration areas with no determined resources.
- (b) The plant is located on leased land. The lease expires in 2026. No further payments are due on the lease. Included in plant and equipment is \$ 835 (May 2006 - \$782) of spare parts that are amortized over 5 years. Included in mineral properties is \$ 2,773 (May 2006 - \$1,355) of mine development costs that have not yet been amortized as these are pre-stripping and development costs for deposits from which production has not commenced.

3. Deferred Exploration Costs

	November 30, 2006	May 31, 2006	November, 30 2005
Acquisition costs and option payments	\$ 775	\$ 775	\$ 1,521
Exploration, development and other property costs	12,022	8,853	\$ 4,027
Capitalized indirect overheads, net of exchange gains	1,806	1,556	\$ 1,425
	<u>\$ 14,603</u>	<u>\$ 11,184</u>	<u>\$ 6,973</u>

- a) The Uruguay Mining legislation requires all mining titles to be supported by guarantees for any environmental rehabilitation requirements resulting from exploration or mining activities. These guarantees are required to be posted by non-title holders. As a result, certain of the Company's employees, officers and directors have provided personal assets as guarantees. The Company intends to compensate these individuals in the event that the guarantee is called. The Company has also agreed to pay a guarantee fee to the individuals at rates advantageous to the Company. This fee is based on the amount of the guarantee and is negotiated on a case-by-case basis. The total guarantees provided at November 30, 2006 were approximately \$ 1,125 (May 31, 2006 \$ 1,390). These relate to potential site restoration responsibilities associated with exploration activities. In addition, as a consequence of the acquisition of the San Gregorio mine, the Company has assumed full responsibility for the rehabilitation of the mining site. This obligation is supported by a rehabilitation guarantee of \$1,500.

The Company's current site restoration liability in respect of its exploration activities is not material.

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4. Deferred Stripping and Other Non Current Assets

	November 30, 2006	May 31, 2006	November 30, 2005
Refundable deposits	\$ 139	\$ 140	\$ 143
Capitalized debt issue costs	7	145	183
Deferred Stripping	5,451	4,438	2,009
	\$ 5,597	\$ 4,723	\$ 2,335

Costs and fees relating to the secured financing facility have been capitalized and will be amortized over the life of the facilities, commencing December 1, 2004.

5. Debt

	November 30 2006	May 31, 2006	November 30 2005
Drawn debt facilities			
Deferred payment on equipment (a)	-	\$ 863	\$ 3,893
Deferred payment on acquisition of Net profit (b)	1,938	2,905	3,884
Finance lease (c)	381	457	-
	2,319	4,225	7,777
Less non current portion	(1,080)	(2,167)	(2,876)
	1,239	2,058	\$ 4,901
Available debt Facilities			
Working capital facility (d)	\$	2,000	\$ 2,000
Deferred payment on equipment	-	-	3,893
Finance Lease (c)	43	43	-
	\$ 43	2,043	\$ 5,893

(a) On August 5, 2004, a subsidiary of the Company signed a sale and purchase agreement with Komatsu Latin America Corporation for the purchase of \$ 6,349,247 in mine equipment, amended on June 15, 2005 to purchase an additional \$1,352. The equipment was purchased on deferred payment terms with an initial payment of 25%, twelve monthly installments equal to 15% and a final balloon payment of 60% 12 months from the date that equipment is assembled and ready to work. Interest on all balances outstanding accrues at the 90 day Libor rates plus 4%. As of this date, payments obligations have been duly fulfilled and no balances remain outstanding.

(b) On November 30, 2005 a subsidiary of the Company issued three unsecured convertible notes with a face value of \$ 1,050 pursuant to the acquisition detailed at note 2(a) The three convertible notes are payable on or before July 30, 2006, July 30, 2007 and July 30, 2008 respectively. Each convertible note can be converted into 250,000 ordinary shares during a 30 day period prior to the final payment date for each installment. No interest accrues on the notes. First convertible note expired in July 2006 was paid in cash and was not converted into shares. The two remaining convertible notes are shown recorded at their net present value using an 8.5% discount rate.

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November 30, 2006

5. Debt – cont'd

- (c) On May 31, 2006 a subsidiary of the Company signed a financial lease facility agreement of \$500 with ABN AMRO N.V. Sucursal Montevideo for the purchase of light vehicles. The facility is payable in equal monthly installments over a three year period at 180 days LIBOR plus 2.5% rate of interest. As at 31 May 2006, \$ 457 has been drawn under this facility.
- (d) On August 8, 2004, the Company entered into a secured \$2,000 interim working capital facility with Macquarie Bank Limited. On October 26, 2004 this interim facility was increased to \$3,000. On December 8, 2004 the Company signed documentation for a secured financing facility of \$6,500 replacing the interim working capital facility with Macquarie Bank Limited. This facility will provide \$1,500 for environmental bonds and \$5,000 for working capital needs. The facility will bear interest at a rate of Libor plus 2%, and is secured by a general floating charge over all of the Company's assets. The working capital facility expired in September 2006 and the environmental bond facility in December 2006.

6. Equity Instruments

(a) Authorized

Unlimited number of Common Shares

(b) Issued

Common shares

	November 30, 2006		May 31, 2006	
	Number (000's)	Amount	Number (000's)	Amount
Issued and outstanding, beginning of year	47,525	\$ 33,595	46,107	\$ 30,308
Issued for Net profit interest acquisition (Note 6(c))	-	-	290	1,096
Issued for exercise of warrants for cash	250	1,013	-	-
Issued for mine properties acquisition	-	-	51	240
Issued for stock options exercised	321	469	1,077	1,951
Issued and Outstanding	48,096	\$ 35,077	47,525	\$ 33,595
Less: cumulative share issue costs ⁽¹⁾		(925)		(925)
Balance, end of year	48,096	\$ 34,152	47,525	\$ 32,670

Warrants and convertible notes

	November 30, 2006		May 31, 2006	
	Number (000's)	Amount	Number (000's)	Amount
Issued and outstanding, beginning of year	1,000	\$ 188	250	\$ 188
Expired	(250)	-	750	-
Exercised	(250)	(188)	-	-
Issued and outstanding, end of year	500	\$ -	1,000	\$ 188

Total equity instruments

	\$ 34,152	\$ 32,858
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(1) These costs have been recorded gross of any related tax effect, as the ultimate utilization of any related tax benefit is currently uncertain.

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November 30, 2006

6. Equity Instruments – cont'd

(c) Warrants and Convertible notes

On November 30, 2005, the Company acquired the net profit interest in tenements at the Minas de Corrales Gold Project as described at Note 2(a) Pursuant to this agreement the Company issued three convertible notes that provided the holder with the option to convert the note, with a face value of \$ 1,050 into 250,000 ordinary shares. The note may be converted during a 30 day period prior to the expiry date. The fair value of the option to convert the notes into ordinary shares was calculated as the difference between the nominal and fair value of the notes.

The convertible notes expire as follows:

Ordinary shares to be issued on conversion of promissory note	Option price \$	Expiry date
250,000	4,20	July 30, 2007
250,000	4,20	July 30, 2008

The first convertible note expired in July 30, 2006 and was not exercised.

At November 30, 2006, the Company has nil (May 31, 2006-250,000) warrants outstanding.

(d) 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.

For the purposes of stock based compensation, the fair value of each option was determined on the date of granting using the Black-Sholes option pricing model with the following assumptions: Dividend yield (Nil) (2005 - Nil), expected volatility (60%) (2006 – 60%), risk-free interest rate range of 4 to 4.3% (2006 – 3%), and weighted average life of 3.0 years (2006 – 3.0 years). During the six month period \$ 480 (November 30, 2005 \$ 158) of compensation expense was recorded. At November 30, 2006 the aggregate unamortized fair value of unvested stock options granted amounted to \$1,418 (2006 - \$ 722)".

The following table summarizes information regarding the Company's outstanding options as at November 30, 2006:

	Number of Shares	Option Price per Share Range CDN \$	Weighted Average Exercise Price CDN \$
Balance at beginning of the period	2,567	\$0.4 - \$5.50	\$3.03
Options – granted	1,201	\$3.90 - \$5.29	\$4.53
Options – exercised or cancelled	(321)	\$0.4 - \$1.5	\$1.18
Options outstanding, November 30, 2006	3,447	\$0.4 - \$5.50	\$3.72

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November 30, 2006

6. Equity Instruments – cont'd

The following table summarizes information about the stock options outstanding to the officers, directors and staff at November 30, 2006:

Outstanding				Vested options	
Options 000s	Option price CDN \$	Weighted average Exercise Price CDN \$	Remaining Life Years	Options 000s	Weighted average Exercise Price CDN \$
233	\$ 0.40	\$ 0.40	0.2	233	\$ 0.40
15	\$ 0.75	\$ 0.75	1.3	15	\$ 0.75
544	\$ 1.50	\$ 1.50	1.8	544	\$ 1.50
104	\$ 3.00	\$ 3.00	2.5	104	\$ 3.00
60	\$ 3.40	\$ 3.40	2.6	60	\$ 3.40
570	\$ 3.90	\$ 3.90	4.9	-	\$ 3.90
200	\$ 4.00	\$ 4.00	2.4	200	\$ 4.00
20	\$ 4.10	\$ 4.10	4.7	20	\$ 4.10
763	\$ 4.50	\$ 4.50	3.8	254	\$ 4.50
68	\$ 4.62	\$ 4.62	4.0	-	\$ 4.62
190	\$ 4.77	\$ 4.77	4.5	-	\$ 4.77
421	\$ 5.29	\$ 5.29	4.5	421	\$ 5.29
200	\$ 5.40	\$ 5.40	3.0	200	\$ 5.40
59	\$ 5.50	\$ 5.50	4.4	-	\$ 5.50
3,447				2,051	

(e) Earnings per share

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

	Three months ended November 30		Six months ended November 30	
	2006	2005	2006	2005
Basic earnings per share				
Numerator				
Net earnings available to shareholders	\$ 1,751	\$ 1,944	\$ 4,318	\$ 4,184
Denominator				
Weighted average shares outstanding	48,081,935	46,263,746	48,026,766	46,227,580
Basic earnings per share (cents per share)	0.036	0.042	.090	0.091

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6. Equity Instruments – cont'd

	Three months ended November 30		Six months ended November 30	
	2006	2005	2006	2005
Basic earnings per share				
Numerator				
Net earnings available to shareholders	\$ 1,751	\$ 1,944	\$ 4,318	\$ 4,184
Denominator				
Weighted average shares outstanding	48,081,935	46,263,746	48,026,766	46,227,580
Potential net incremental issue of shares from warrants	-	250,000	-	250,000
Potential net incremental issue of shares from stock options	107,710	862,650	108,000	2,280,330
Potential net incremental issue of shares from convertible notes	500,000	750,000	500,000	750,000
Shares outstanding plus assumed conversions	48,689,645	48,126,396	48,634,766	49,507,910
Basic earnings per share (cents per share)	0.036	0.039	.089	0.085

7. Contributed Surplus

The following table summarizes the movements in contributed surplus.

	November 30, 2006	May 31, 2006	November 30 2005
Balance, beginning of period	1,625	\$ 1,577	\$ 1,577
Commitment to issue stock options (a)	917	-	-
Expense for the period	480	536	158
Transfer to equity on exercise of options	(126)	(488)	(166)
	2,896	\$ 1,625	\$ 1,569

(a) On May 2006, the Company committed to the issue of 421,000 options to the retiring CEO. A stock compensation expense for \$ 917 was recorded on May 2006 against a liability for the commitment of the shares issue. As of this date, shares have been issued and the liability has been recorded as contributed surplus.

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8. 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 Project and the exploration segment is devoted to the acquisition and exploration of mineral properties. The gold and exploration segments operate solely in Uruguay. Precious metals are refined and sold in Europe.

	November 30 2006			
	Gold	Exploration	Corporate	Total
For the 3 months ending				
Sales	\$ 12,433	\$ -	\$ -	\$ 12,433
Amortisation and depreciation	\$ (1,909)	\$ -	\$ -	\$ (1,909)
Net income (loss)	\$ 2,558	\$ (463)	\$ (344)	\$ 1,751
For the 6 months ending				
Sales	\$ 24,610	\$ -	\$ -	\$ 24,610
Amortisation and depreciation	\$ (3,924)	\$ -	\$ -	\$ (3,924)
Net income (loss)	\$ 5,943	\$ (972)	\$ (653)	\$ 4,318
As at 30 November				
Property, plant and equipment	\$ 21,719	\$ 519	\$ 1,235	\$ 23,473
Deferred exploration and development	\$ 4,120	\$ 10,483	\$ -	\$ 14,603
	November 30 2005			
	Gold	Exploration	Corporate	Total
For the 3 months ending				
Sales	\$ 11,326	\$ -	\$ -	\$ 11,326
Amortisation and depreciation	\$ (2,567)	\$ -	\$ -	\$ (2,567)
Net income (loss)	\$ 2,767	\$ (443)	\$ (380)	\$ 1,944
For the 6 months ending				
Sales	\$ 23,047	\$ -	\$ -	\$ 23,047
Amortisation and depreciation	\$ (4,316)	\$ -	\$ -	\$ (4,316)
Net income (loss)	\$ 5,231	\$ (474)	\$ (573)	\$ 4,184
As at 30 November				
Property, plant and equipment	\$ 24,246	\$ 172	\$ 10	\$ 24,428
Deferred exploration and development	\$ -	\$ 6,973	\$ -	\$ 6,973

Exploration expenditure on the Minas de Corrales gold project and associated exploration equipment included in property plant and equipment were transferred from the exploration segment to the gold segment during the quarter.

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9. Supplementary cash flow information

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

	Three months ended		Six months ended	
	November 30		November 30	
	2006	2005	2006	2005
Prepaid expenses and other	(93)	\$ (46)	(209)	\$ (101)
Accounts receivable	(1,323)	(411)	(1,811)	(676)
Accounts payable and accrued liabilities	1,393	(887)	2,652	(234)
Inventory	18	(983)	(915)	(955)
Net change in non-cash working capital balances	<u>(5)</u>	<u>\$ (2,327)</u>	<u>(283)</u>	<u>\$ (1,966)</u>

(b) Other information

Cash interest paid	\$ 18	\$ 72	\$ 41	\$ 141
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10. Financial Derivatives

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price risk, currency risk, credit risk, and fair value risk.

The Company uses financial derivatives to mitigate the effect of certain risks that are inherent in its business. As at November 30, 2006 the Company has already cancelled all of its financial derivatives it has entered in the past to reduce its exposure to fluctuations in the gold price. These instruments consist of gold option contracts.

For these contracts the fair value was calculated using the spot price at period end, expected future prices and volatilities. The nature and level of these contracts are such that they offer a degree of downside protection while allowing the company some participation in price appreciation. The fair value of these contracts is noted below. The net value of these contracts has been recorded as a liability.

	November 30,	May 31,	November 30,
	2006	2006	2005
Gold put options	-	-	37
Gold call options	-	(2,317)	(1,573)
Gold spot deferred contract	-	-	(56)
	<u>-</u>	<u>(2,317)</u>	<u>(1,592)</u>

The Company previously entered into put option contracts on 10,000 ounces at a forward price of \$ 436 per ounce. To cover the cost of the put option contracts the Company sold call options contracts on 10,000 ounces at a forward price of \$ 486.5 per ounce. The put and call options were matched in timing and have been delivered into on a monthly basis at a rate of 2,500 ounces per month. At the end of the period all contracts have ended and no ounces remain to be delivered.

November 30, 2006

10. Financial Derivatives – cont'd

(a) Currency risk

The Company's cash balances are held principally in US dollars in a Canadian bank, 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 United States dollar. This would result in an increase of the peso-based expenses.
- (ii) The United States 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.

(b) Credit risk

The Company enters into financial agreements (financial instruments) with major international banks and other international financial institutions in order to manage underlying revenue and future cash flow exposures arising from commodity prices. Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash, accounts receivable and securities.

(d) Fair value risk

The carrying amount of cash, accounts receivable and current liabilities approximate their fair value due to the short-term maturities of these instruments. The fair value of the Company's debt is approximated by its carrying value due to its floating interest rate.