

Uruguay Mineral Exploration Inc.
Consolidated Interim Financial Statements
For the three month period ended August 31, 2006
(Unaudited)

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 August 31 2006.

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Uruguay Mineral Exploration Inc.
Consolidated Balance Sheets
(Unaudited)

(Thousands of United States Dollars, except where indicated)

	As at	
	August 31, 2006	May 31, 2006
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	8,545	8,931
Accounts receivable	2,187	1,699
Inventories	8,977	8,108
Prepaid expenses and other	633	612
	20,342	19,350
Property plant and equipment (Note 2)	23,145	22,896
Deferred exploration (Note 3)	12,560	11,184
Future income tax assets	1,629	1,855
Other non current assets and deferred costs (Note 4)	4,975	4,723
Total assets	62,651	60,008
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	5,475	5,076
Provision for dividends	1,485	-
Current portion of long term debt (Note 5)	1,611	2,058
Unrealized fair value of derivatives (Note 10)	1,070	2,317
	9,641	9,451
Future income tax liabilities	1,486	1,486
Long term debt (Note 5)	1,220	2,167
Asset retirement obligation	1,665	1,665
Total liabilities	14,012	14,769
Equity instruments (Note 6)	34,134	32,858
Contributed surplus (Note 7)	2,667	1,625
Cumulative translation adjustment	(19)	(19)
Retained earnings	11,857	10,775
Total shareholder's equity	48,639	45,239
Total liabilities and shareholder's equity	62,651	60,008

Approved by the Board of Directors

"David Fowler" Director

"Tony Shearer" Director

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

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

	Three months ended	
	August 31	August 31
	2006	2005
	\$	\$
Sales	12,177	11,721
Net profit interest	-	(306)
Net sales	12,177	11,415
Operating expenses	6,749	5,760
Amortization, depletion and accretion	2,015	1,749
Operating profit	3,413	3,906
Other expenses		
Compensation expense – stock based	251	-
General and administrative	936	592
Fair value adjustment for derivatives	(1,247)	197
Interest and financing fees	88	93
	28	882
Income before other items and taxes	3,385	3,024
Other items		
Interest and other income	91	32
Foreign exchange gain/(loss)	(63)	(18)
Income before taxes	3,413	3,038
Income taxes	846	798
Net income for the period	2,567	2,240
Retained earnings, beginning of period	10,775	192
Provision for dividends	(1,485)	-
Retained earnings, end of period	11,857	2,432
Basic earnings per share (Note 6(e))	0.054	0.048
Diluted earnings per share (Note 6(e))	0.053	0.046
Basic weighted average no. of shares	47,971,597	46,191,413
Diluted weighted average no. of shares	48,763,335	49,126,413

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

(Thousands of United States Dollars, except where indicated)

	Three months ended	
	August 31	August 31
	2006	2005
	\$	\$
Operating activities		
Net income for the period	2,567	2,240
Adjustments for:		
Amortization, depletion and accretion	2,015	1,749
Deferred Stripping	(354)	(795)
Future Income taxes	226	798
Fair value adjustment of derivatives	(1,247)	197
Compensation expense – stock based	251	-
Other	45	-
	3,503	4,189
Net change in non-cash working capital balances (Note 9)	(278)	359
	3,225	4,548
Financing activities		
Proceeds from the issue of share capital, net of issue costs	1,151	168
Payments of finance lease	(32)	-
	1,119	168
Investing activities		
Refundable deposits	0	-
Net proceeds from sale of assets	45	300
Purchase of property, plant and equipment	(3,399)	(2,695)
Payments for deferred exploration and development	(1,376)	(440)
	(4,730)	(2,835)
Increase in cash and cash equivalents	(386)	1,881
Cash and cash equivalents, beginning of period	8,931	5,501
Cash and cash equivalents, end of period	8,545	7,382

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

(Thousands of United States Dollars, except where indicated)

August 31, 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

Effective October 1, 2004 as a result of developing a complete mine plan for the Arenal deposit the Company adopted the industry practice of deferring stripping costs. Previously the company had expensed these costs as it could not reasonably estimate the life of mine strip ratio for deposits being mined.

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 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.

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.

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2. Property, Plant and Equipment

	August 31, 2006		
	Cost	Accumulated Amortization and Depletion	Net Book Value
Land and lease rights	\$ 1,895	\$ -	\$ 1,895
Plant and equipment	21,563	8,613	12,950
Mineral Properties	13,857	5,557	8,300
	<u>\$ 37,315</u>	<u>\$ 14,170</u>	<u>\$ 23,145</u>
	May 31, 2006		
	Cost	Accumulated Amortization and Depletion	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
	<u>\$ 35,475</u>	<u>\$ 12,579</u>	<u>\$ 22,896</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 \$ 1,994 (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.

Uruguay Mineral Exploration Inc.
Notes to Consolidated Interim Financial Statements
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3. Deferred Exploration and Development Costs

	August 31, 2006	May 31, 2006
Acquisition costs and option payments	\$ 775	\$ 775
Exploration, development and other property costs	10,089	8,853
Capitalized indirect overheads, net of exchange gains	1,696	1,556
	\$ 12,560	\$ 11,184

(a) The Company has the right to purchase shares of a Uruguayan company, Davinco S.A (Presidente Terra project) pursuant to an agreement dated May 14, 1997. The terms of this purchase are as follows:

i) 80% of DAVINCO SA issued shares for the amount of \$750, payable in installments. \$475 has been paid up to November 30, 2001. The balance of installments is due as follows:

<u>Installment</u>	<u>Due date</u>
\$ 275	Within 5 days after the issue of a feasibility study on mineral properties held by DAVINCO SA.

ii) 20% of DAVINCO SA total shares, once the 80% has been acquired and provided a decision has been made to continue mineral exploration, at a variable price depending on the productive potential.

(b) 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 August 31, 2006 were approximately \$ 1,343 (May 2005 - \$ 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 letter of credit provided by Macquarie Bank of \$1,500.

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August 31, 2006

4. Other Non Current Assets and Deferred Costs

	August 31, 2006	May 31, 2006
Refundable deposits	\$ 140	\$ 140
Capitalized debt issue costs	44	145
Deferred stripping (Note 1(a))	4,791	4,438
	\$ 4,975	\$ 4,723

5. Long Term Debt

	August 31, 2006	May 31, 2006
Drawn debt facilities		
Deferred payment on equipment (a)	\$ 510	863
Deferred payment on acquisition of Net Profit (b)	1,900	2,905
Finance lease (c)	421	457
	2,831	4,225
Less non current portion	(1,220)	(2,058)
	\$ 1,611	2,167
Available debt facilities		
Working capital facility (d)	\$ 2,000	2,000
Finance Lease (c)	43	43
	\$ 2,043	2,043

(a) On 15 June 2005 a subsidiary of the Company signed a sale and purchase agreement to purchase \$1,352 in mine equipment from Komatsu Latin America Corporation. This equipment is being 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%. Additional amounts relating to assembly and freight included in deferred payments on equipment will be paid following the final commissioning of the equipment.

(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 (5a). 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. The convertible notes have been recorded at their net present value using an 8.5% discount rate. First convertible note expired in July, was paid in cash and was not converted into shares.

(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.

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5. Debt and Deferred Payment of Equipment

(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	August 31, 2006		May 31, 2006	
	Number (000s)	Amount	Number (000s)	Amount
Issued and outstanding, beginning of period	47,525	\$ 33,595	46,107	\$ 30,308
Issued for stock options exercised	280	451	1,077	1,951
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 property acquisition	-	-	51	240
Issued and Outstanding	48,055	\$ 35,059	47,525	\$ 33,595
Less: cumulative share issue costs ⁽¹⁾	-	(925)	-	(925)
Balance, end of period	48,055	\$ 34,134	47,525	\$ 32,670
Warrants & convertible notes	August 31, 2006		May 31, 2006	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of period	1,000	\$ 188	250	\$ 188
Issued for net profit interest acquisition (note 6(c))	-	-	750	-
Expired	(250)	-	-	-
Exercised	(250)	(188)	-	-
Issued and outstanding, end of period	500	0	1,000	\$ 188
Total equity instruments		\$ 34,134		\$ 32,858

(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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6. Equity Instruments – continued

(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) and 5(b). 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 August 31, 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 3% (2006 – 3%), and weighted average life of 3.0 years (2006 – 3.0 years). During the period \$ 251 (August 31, 2005 \$ nil) of compensation expense was recorded. At August 31, 2006 the aggregate unamortized fair value of unvested stock options granted amounted to \$ 812 (2006 - \$ 722).

The following table summarizes information regarding the Company's outstanding options as at August 31, 2006:

	Number of Shares (000's)	Option Price per Share Range CDN \$	Weighted Average Exercise Price CDN \$
Balance at beginning of period	2,567	\$0.40 - \$5.50	\$3.03
Options – granted	631	\$4.77 - \$ 5.29	\$ 5.12
Options – exercised or cancelled	<u>(280)</u>	\$0.75 - \$1.5	\$ 1.29
Balance at end of year	<u>2,918</u>	\$0.40 - \$5.50	\$ 3.64

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August 31, 2006

6. Equity Instruments – continued

The following table summarizes information about the stock options outstanding at May 31, 2006:

Outstanding				Exercisable	
Options 000s	Option price CDN \$	Weighted average Exercise Price CDN \$	Remaining Life Years	Options 000s	Weighted average Exercise Price CDN \$
270	\$ 0.40	\$ 0.40	0.5	270	\$ 0.40
15	\$ 0.75	\$ 0.75	1.6	15	\$ 0.75
548	\$ 1.50	\$ 1.50	2.0	548	\$ 1.50
104	\$ 3.00	\$ 3.00	2.7	104	\$ 3.00
60	\$ 3.40	\$ 3.40	2.8	60	\$ 3.40
200	\$ 4.00	\$ 4.00	2.6	200	\$ 4.00
20	\$ 4.10	\$ 4.10	4.9	20	\$ 4.10
763	\$ 4.50	\$ 4.50	4.0	-	\$ 4.50
68	\$ 4.62	\$ 4.62	4.2	-	\$ 4.62
190	\$ 4.77	\$ 4.77	4.8	-	\$ 4.77
421	\$ 5.29	\$ 5.29	4.8	421	\$ 5.29
200	\$ 5.40	\$ 5.40	3.2	200	\$ 5.40
59	\$ 5.50	\$ 5.50	4.6	-	\$ 5.50
<u>2,918</u>				<u>1,838</u>	

(e) Earnings per share

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

	August 31, 2006	August 31, 2005
Basic earnings per share		
Numerator		
Net earnings available to shareholders	\$ 2,567	\$ 2,240
Denominator		
Weighted average earnings per share	47,971,597	46,191,413
Basic earnings per share (cents per share)	0.054	0.048

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6. Equity Instruments – continued

	August 31, 2006	August 31, 2005
Diluted earnings per share		
Numerator		
Net earnings available to shareholders	\$ 2,567	\$ 2,240
Denominator		
Weighted average shares outstanding	47,971,597	46,191,413
Potential net incremental issue of shares from warrants	-	250,000
Potential net incremental issue of shares from stock options	291,738	2,685,000
Potential net incremental issue of shares from convertible notes	500,000	-
Shares outstanding plus assumed conversions	48,763,335	49,126,413
Diluted earnings per share (cents per share)	0.053	0.046

7. Contributed Surplus

The following table summarizes the movements in contributed surplus for the period ended August 31, 2006.

	August 31, 2006	May 31, 2006
Balance at beginning of year	\$ 1,625	\$ 1,577
Stock based compensation	1,166	536
Transfer on exercise of options	(124)	(488)
Balance at end of year	\$ 2,667	\$ 1,625

8. Segment 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. The gold and exploration segments operate solely in Uruguay. Precious metals are refined and sold in Europe.

Uruguay Mineral Exploration Inc.
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(Thousands of United States Dollars, except where indicated)

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8. Segment Information - continued

	August 31, 2006			Total
	Gold	Exploration	Corporate	
For three months ended				
Net Sales	12,177	-	-	12,177
Amortization and depletion	(2,015)	-	-	(2,015)
Net income (loss)	3,385	(509)	(309)	2,567
As at 31 August 2006				
Property, plant and equipment	21,556	354	1,235	23,145
Deferred exploration and development	2,409	10,151	-	12,560
	August 31, 2005			Total
	Gold	Exploration	Corporate	
For three months ended				
Net Sales	11,415	-	-	11,415
Amortization and depletion	1,749	-	-	-
Net income (loss)	2,464	(31)	(193)	2,240
As at 31 May 2006				
Property, plant and equipment	21,384	277	1,235	22,896
Deferred exploration and development	1,677	9,507	-	11,184

9. Supplementary Cash Flow Information

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

	Three months ended	
	August 31 2006	August 31 2005
Prepaid expenses and other	\$ (116)	\$ (55)
Accounts receivable	(488)	(265)
Accounts payable and accrued liabilities	1,259	652
Inventory	(933)	27
Net change in non-cash working capital balances	<u>\$ (278)</u>	<u>\$ 359</u>

(b) Other information

Cash interest paid	\$ -	\$ -
Cash taxes paid	28	139

Uruguay Mineral Exploration Inc.
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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 manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity Price Risk

The Company uses financial derivatives to mitigate the effect of certain risks that are inherent in its business. As at August 31, 2006 the Company had entered into a number of financial derivatives to reduce its exposure to fluctuations in the gold price. These instruments consist of gold option contracts. The company intends to deliver into these 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 to participate in price appreciation.

The fair value of these contracts is noted below. The net values of these contracts have been recorded as a liability.

Asset/(liability)	August 31, 2006	May 31, 2006
Spot deferred	\$ (350)	\$ (220)
Gold call options	(720)	(2,097)
	\$ (1,070)	\$ (2,317)

The Company has 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 has sold call options contracts on 10,000 ounces at a forward price of \$ 486.5 per ounce. The put and call options are matched in timing and will be delivered into on a monthly basis at a rate of 2,500 ounces per month. At the end of the period 5,000 ounces of this contract remain to be delivered and 2,500 ounces have been rolled into a spot deferred contract

(b) 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.

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10. Financial Derivatives - Cont

(c) 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.
