Uruguay Mineral Exploration Inc.
Consolidated Financial Statements
For the years ended May 31, 2007 and 2006

Contents

Management's Responsibility for Financial Reporting

The consolidated financial statements of Uruguay Mineral Exploration 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 generally accepted accounting principles (GAAP) in Canada 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 after a recommendation from the Audit Committee, conduct an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

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.

Signed *"David Fowler"*
Chief Executive Officer

Signed *"Pablo Ferrari"*
Chief Financial Officer

August 14, 2007

Auditors' Report

To the Shareholders of
Uruguay Mineral Exploration Inc.

We have audited the consolidated balance sheets of Uruguay Mineral Exploration Inc. as at May 31, 2007 and 2006 and the consolidated statements of income and retained earnings and cash flows 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, 2007 and 2006 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"*

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario, Canada
August 14, 2007

Uruguay Mineral Exploration Inc.
Consolidated Balance Sheets
Thousands of United States Dollars, except where indicated

As at May 31		**2007**		2006
## Assets				
Current assets				
Cash and cash equivalents	**$**	**13,978**	$	8,931
Accounts receivable (Note 3)		**2,275**		1,699
Inventories (Note 4)		**8,484**		8,108
Prepaid expenses		**647**		612
		25,384		19,350
Property, plant and equipment and development costs (Note 5)		**25,885**		22,896
Deferred exploration and evaluation (Note 6)		**16,316**		11,184
Future income tax assets (Note 13)		**2,387**		1,855
Other assets and deferred costs (Note 7)		**4,969**		4,723
Total assets	**$**	**74,941**	$	60,008

Liabilities and Shareholder's Equity

Current liabilities				
Accounts payable and accrued liabilities	**$**	**6,238**	$	5,076
Current portion of long term debt (Note 8)		**1,231**		2,058
Unrealized fair value of derivatives (Note 15)		**-**		2,317
		7,469		9,451
Long term tax payable (Note 13(d))		**2,414**		1,486
Long term debt (Note 8)		**2,154**		2,167
Asset retirement obligation (Note 9)		**2,036**		1,665
Total liabilities		**14,073**		14,769
Equity instruments (Note 10)		**34,592**		32,670
Warrants (Note 10)		**12**		188
Contributed surplus (Note 11)		**3,297**		1,625
Cumulative translation adjustment		**(19)**		(19)
Retained earnings		**22,986**		10,775
Total shareholders' equity		**60,868**		45,239
Total liabilities and shareholders' equity	**$**	**74,941**	$	60,008

Commitments and contingencies (Note 12)

Approved on behalf of the Board:

Signed "David Fowler" Signed "Tony Shearer"

________________________Director ____________________Director
David Fowler Tony Shearer

Uruguay Mineral Exploration Inc.
Consolidated Statements of Income 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	2007	2006
Sales	**$63,056**	$51,206
Net profit interest	**-**	(635)
Net sales	**63,056**	50,571
Operating expenses	**31,537**	22,014
Amortization, depletion and accretion	**8,752**	8,742
Operating expenses	**40,289**	30,756
Sub-total	**22,767**	19,815
Other expenses (gains)		
Stock based compensation	**975**	1,453
Fair value adjustment for derivatives	**(2,317)**	2,138
Exploration written off	**2,129**	-
General and administrative	**4,347**	3,483
Interest and financing fees	**314**	339
Gain on settlement of net profit interest	**-**	(888)
Interest and other income	**(510)**	(64)
Foreign exchange loss	**225**	128
	5,163	6,589
Income before taxes	**17,604**	13,226
Current income taxes (Note 13)	**3,582**	2,711
Future income taxes (Note 13)	**(532)**	(68)
Net income for the year	**14,554**	10,583
Retained earnings beginning of year	**10,775**	192
Dividend distribution	**(2,343)**	
Retained earnings end of year	**$ 22,986**	$10,775
Basic earnings per share (Note 10.g)	**$ 0.30**	$0.23
Diluted earnings per share (Note 10.g)	**$ 0.30**	$0.22
Basic weighted average number of shares	**48,258,892**	46,661,234
Diluted weighted average number of shares	**48,668,269**	48,548,859

Uruguay Mineral Exploration Inc.
Consolidated Statements of Cash Flows
Thousands of United States Dollars, except where indicated

For the years ended May 31	**2007**	2006
Operating activities		
Net income for the year	**$14,554**	$10,583
Adjustments for non cash items:		
Amortization, depletion and accretion	**8,752**	8,742
Exploration written off	**2,129**	-
Accretion of net profit interest acquisition liability	**159**	-
Future income taxes	**(531)**	(68)
Deferred stripping	**(391)**	(3,870)
Tax deferred payment (Note 13.d)	**928**	1,486
Fair value adjustment of derivatives	**(2,317)**	2,137
Stock based compensation	**975**	1,453
Others	**(81)**	52
	24,177	20,515
Net change in non-cash working capital balances (Note 16)	**1,181**	(2,129)
	25,358	18,386
Financing activities		
Proceeds from the issue of share capital	**1,515**	1,473
Proceeds from borrowings, net of costs	**106**	457
Lease/Loan payments	**(163)**	-
Dividends payments	**(2,343)**	-
	(885)	1,930
Investing activities		
Purchase of property, plant and equipment and development costs	**(12,401)**	(12,058)
Sales of capital assets	**51**	650
Payments for exploration	**(7,076)**	(5,478)
	(19,426)	(16,886)
Increase in cash and cash equivalents	**5,047**	3,430
Cash and cash equivalents, beginning of year	**8,931**	5,501
Cash and cash equivalents, end of year	**13,978**	8,931

1. Nature of Operations

Uruguay Mineral Exploration 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 of the London Stock Exchange in the United Kingdom.

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

2. 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 with 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 subsidiaries in United States Dollars. The Company has adopted the United States Dollar as its functional and reporting currencies. The Company has determined that all of its operations are integrated, as such, the Company translates foreign currencies into the reporting currency on the following basis:

- Non-monetary assets and liabilities using historical rates;
- Monetary assets and liabilities using period end rates; and
- Income and expenses are translated at average rates of exchange during the period.

Gains and losses arising from the translation of foreign currency balances into US dollars and from foreign currency transactions related to integrated operations are recorded in earnings.

(c) Cash and equivalents

Cash and equivalents consist of cash in bank, deposits held at call with banks and other short term highly liquid investments with original maturity dates of three months or less.

2. Significant Accounting Policies - continued

(d) Property, plant and equipment & 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. A property is classified as a development property when a mine plan has been prepared proved 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.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which these amounts are recoverable. Amounts shown as development costs are net of metal recoveries prior to commercial production.

No amortisation is provided in respect of development 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 proven and probable reserves.

(e) Impairment of assets

At each reporting date, an assessment is made to review the carrying value of the producing mineral properties for possible impairment. For that purpose, the Company estimates future cash flows from those assets and compares the amount so calculated with the carrying amount of the same assets. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value. Capitalized exploration assets are subject to an impairment test as explained in note 2f).

(f) Deferred exploration and evaluation

Exploration and evaluation expenditure is capitalized under areas of interest defined by the Company and carried forward as an asset until the properties to which they relate are placed into commercial operations, sold or where management has determined there to be an impairment in value.

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

(g) Deferred Stripping Costs

The Company is engaged in open pit mining incurring costs of removing overburden and waste rock (stripping costs) during mine development and production phase.

2. Significant Accounting Policies - continued

When stripping costs in the production phase are higher with respect to those arising from applying the expected average stripping ratio (the ratio of waste material to ore extracted) for the mine life, a portion of the waste removal costs is attributed to future production and deferred, as it is considered a development cost incurred to gain access to the ore body. The amount deferred is subsequently amortized when the actual stripping ratio falls below the expected average stripping ratio.

The waste to ore ratio and the remaining life of the mine are both regularly reassessed 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 effect on the financial statements.

(h) 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 to ensure the uninterrupted operation of the production equipment are accounted for as property, plant and equipment and amortized over the same period as the component they are associated with.

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

In process inventories represent materials that are currently being converted to a saleable product. In process materials are measured based on assays of the material fed to the processing plants and expected recoveries. In process inventories are valued 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.

(i) 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 realised 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.

2. Significant Accounting Policies - continued

(j) 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. 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 estimates its respective costs based on feasibility and engineering studies using current restoration standards and techniques and industry guidelines, on a site by site basis.

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, using 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.

(k) 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. Sales include government incentives provided to the Company for the export sales as the incentive is based on the value of exports.

(l) 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.

2. Significant Accounting Policies – continued

(m) Financial instruments

Financial derivatives are marked to market with the fair value of the derivative instruments recognized as unrealized gains and losses in the statement of income.

(n) Earnings per share amounts

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.

(o) 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.

(p) Reclassification

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Thousands of United States Dollars, except where indicated

3. Accounts Receivable

		2007		2006
Receivables	**$**	**38**	$	59
Other Tax receivables (a)		**2,237**		1,640
	$	**2,275**	$	1,699

(a) Other tax receivables consists of Uruguayan Value Added Tax (VAT) refunds granted to Uruguayan subsidiaries, Uruguayan export tax refunds granted to Uruguayan subsidiaries (based on a percentage of FOB value of the export) and refunds for Canadian VAT.

4. Inventories

		2007		2006
Finished metals	**$**	**1,107**	$	906
Ore in stockpiles		**455**		709
Gold in circuit		**1,033**		1,331
Materials and supplies		**5,889**		5,162
	$	**8,484**	$	8,108

Thousands of United States Dollars, except where indicated

5. Property, Plant and Equipment

	2007		
	Cost	**Accumulated Amortization and Depletion**	**Net Book Value**
Land and lease rights	**$ 2,077**	**$ -**	**$ 2,077**
Plant and equipment (b) (h)	**25,411**	**12,391**	**13,020**
Asset retirement obligation	**2,044**	**1,385**	**659**
Development costs (c) (d) (e) (f) (g)	**17,210**	**7,081**	**10,129**
	$ 46,742	**$ 20,857**	**$ 25,885**

	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
Asset retirement obligation	1,694	1,342	352
Development costs	11,524	3,763	7,761
	$ 35,475	$ 12,579	$ 22,896

(a) The plant is located on leased land. The lease expires in 2026. No further payments are due on the lease.

(b) Included in property, plant and equipment is $ 1,114 (2006 - $ 782) of major spare parts that are amortized over 5 years. These major spare parts are maintained to ensure the uninterrupted operation of the production equipment before an unexpected breakdown or equipment failure.

Development costs includes those incurred to bring a mining property into production, develop new ore bodies or develop mining areas in advance of production, and are capitalized and charge to operations using the units of production method based on the estimated life of mine. At November 1, 2006, the Company reassessed its proven and probable reserves in accordance with NI 43-101 requirements. This resulted in a decrease in estimated proven and probable reserves which resulted in an increase in the amortization of mineral properties This change in estimate was accounted for prospectively

(c) Included under Development Costs are $ 2,830 (2006 - $ 1,355) of pre-production stripping costs that have not yet began to be amortized as are costs related to deposits from which production has not commenced.

Thousands of United States Dollars, except where indicated

5. Property, Plant and Equipment – continued

(d) Included under Development Costs is the expenditure incurred to divert the Arroyo Corrales stream river that allows access to reserves of the El Arenal deposit. The accumulated costs were $ 2,100 with associated accumulated amortization of $ 1,778.

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 the Company's obligation to pay the holder the 10% Net Profit Interest (NPI) 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 development costs and is amortized using the unit of production method based on the estimated life of mine. Another $ 383 is included under Deferred Exploration and Evaluation.

(e) Included under Property, plant and Equipment are leased vehicles which are depreciated on a straight line method over four years. At May 31, 2007, the leased vehicles presented a total gross value of $ 457 and an accumulated depreciation of $ 99. See note 8 (b).

6. Deferred Exploration and Evaluation Expenditure

	2007	2006
Acquisition costs and option payments	**$ 917**	$ 775
Exploration and evaluation expenditure	**13,729**	8,853
Capitalized indirect overheads, net of exchange gains	**1,670**	1,556
	$ 16,316	$ 11,184

Thousands of United States Dollars, except where indicated

6. Deferred Exploration and Evaluation Expenditure – continued

Movements in deferred exploration and evaluation expenditures are:

		2007		2006
Capitalized exploration and evaluation expenditure at beginning	**$**	**11,184**	$	5,088
Payments for exploration during the year		**7,076**		6,096
Reclassification from Mine properties		**185**		-
Write off		**(2,129)**		-
Capitalized exploration and evaluation expenditure at end	**$**	**16,316**	$	11,184

(a) During the year, a total of $ 2,129 was written off in accordance with note 2 (f). Impaired assets are related to exploration in base metals in the northern area of the Don Feliciano Belt in Uruguay where management is not planning substantive exploration expenditure in the near future and no selling or farming-out negotiations are advanced.

(b) Farm-in agreements:

i) During the year, the Company signed a farm-in agreement giving it the option to acquire a 100% interest in exploration permits along the Florida Greenstone Belt of southern Uruguay owned by a Uruguayan-based mineral exploration company Delcosur S.A. Upon execution of the contract, the Company acquired exploration information on the tenements for a consideration of $132 comprised of cash of $ 120 and 20,000 non-transferable warrants to purchase common shares of the Company, exercisable for a period of two years from the date of issuance, with a fair value of $ 12.

The Company is required to spend $ 1,050 on exploration over three years to exercise its option to acquire 100% of the Delcosur tenements. Upon exercising this option, the Company is required to grant Delcosur a 1% Net Smelter Return on metal sales resulting from production sourced from the Delcosur tenements. Additionally, in the event that the Company develops a mining operation on the tenements, it is required to issue Delcosur a further 350,000 non-transferable warrants to purchase common shares of the Company at a price calculated at a 20% premium over the 5 day average trading price prior to issuance and will be exercisable for a period of two years from the date of issuance.

ii) 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. Under this agreement the Company has the option to purchase 80% of Davinco's shares for the amount of $ 750 payable in installments, and the remaining 20% once a decision has been made to continue mineral exploration, at a variable price.
The initial installments for the purchase of the 80% of Davinco shares have been settled in the past, and a remaining last installment per $ 275 is due within five days after Davinco issues a feasibility study on the mineral properties.

Thousands of United States Dollars, except where indicated

6. Deferred Exploration and Evaluation Expenditure – continued

(c) Acquisitions:

i) During the year the Company signed an agreement with Southern Era Diamonds Inc. to purchase its Uruguay diamond exploration database. Under the terms of the agreement Southern Era was paid $ 20 and 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.

ii) For the Texas and Mal Abrigo projects the Company has committed to 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.

(d) The Uruguay Mining legislation requires all mining titles to be supported by guarantees for 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, 2007 were approximately $ 1,618 (2006 - $ 1,390).

7. Other Assets and Deferred Costs

		2007		2006
Refundable deposits	**$**	**140**	$	140
Capitalized debt issue costs		**-**		145
Deferred stripping (a)		**4,829**		4,438
	$	**4,969**	$	4,723

(a) The estimated life of mine strip ratio to May 31, 2006 was4.34:1 Effective June 1,2006 the strip ratio was revised to 5.59:1. At November 1, 2006 following a reassessment of its proven and probable reserves in accordance with NI 43-101 the estimated strip ratio was adjusted to 5.75:1

Thousands of United States Dollars, except where indicated

8. Long Term Debt

		2007		2006
Deferred payment on net profit interest acquisition (a)	**$**	**2,985**	$	2,905
Finance lease (b)		**400**		457
Deferred payment on equipment acquisition	**$**	**-**	$	863
		3,385		4,225
Less current portion		**(1,231)**		(2,058)
	$	**2,154**	$	2,167

(a) On November 30, 2005 a subsidiary of the Company issued three unsecured convertible notes each with a face value of $ 1,050 pursuant to the acquisition of the 10% net profit interest over key tenements within the Minas de Corrales project as 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. As a part of the agreement, an additional $ 1,050 is also payable after the third anniversary date if the average monthly price of gold for the previous 36 months exceeds $ 400 per ounce. Management believes this condition will be met and the additional contingent payment has been recognized as at May 31, 2007 as a liability.

The first convertible note expired in July 2006, was paid in cash and was not converted into shares. The two remaining convertible notes plus the contingent additional payment (a total nominal value of $ 3,150) are recorded at their net present value using an 8.5% discount rate. After the financial year-end, the second installment of $1,050 was paid in cash and not converted into shares.

(b) On May 31, 2006 a subsidiary of the Company signed a financial lease facility agreement of $ 500 with ABN AMRO N.V. Sucursal Montevideo. 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 2007, $ 400 has been drawn under this facility. The vehicles purchased are included under Property, Plant and Equipment as expressed in note 5 (h).

(c) Long term debt repayments are as follow:

Financial year ending	Net profit interest debt Nominal Value	Lease installments Nominal value
2008	1,050	187
2009	2,100	187
2010		26
2011 and beyond	-	
Total	3,150	400

Thousands of United States Dollars, except where indicated

9. Asset Retirement Obligations

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

The asset retirement obligations have been recorded as a liability at their estimated fair value determined by calculating the net present value of the estimated future costs, assuming a weighted average cost of capital of 8.5% (8.5% in 2006) and an inflation factor of 2.7% (3.0% in 2006).

The following table summarizes the movements in the asset retirement obligation for the years ended May 31, 2007 and 2006.

	2007	2006
Balance at beginning of year	**$ 1,665**	$ 1,558
Changes in cash flow estimates	**350**	208
Accretion expense	**21**	(101)
Balance at end of year	**$ 2,036**	$ 1,665

Changes in cashflow estimates arise from a re-assessment of the sealing of the tailings dam. The liability for retirement on an undiscounted basis before the inflation factor of 2.7% is estimated to be approximately $ 2,495 within five years, of which approximately $ 1,829 is expected to be incurred during the fourth and fifth year.

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

10. Equity Instruments

(a) Authorized

Unlimited number of Common Shares of no par value

10. Equity Instruments – continued

(b) Issued

Common shares	2007 Number (000's)	2007 Amount	2006 Number (000's)	2006 Amount
Issued and outstanding, beginning of year	**47,525**	**$33,595**	46,107	$30,308
Issued for stock options exercised	**756**	**910**	1,077	1,951
Issued for NPI acquisition (Note 10.c)			290	1,096
Issued for mine properties acquisition			51	240
Issued for exercise of warrants for cash	**250**	**1,012**	-	-
Issued and outstanding	**48,531**	**$ 35,517**	47,525	$ 33,595
Less: cumulative share issue costs [1]		**(925)**		(925)
Balance, end of year	**48,531**	**$ 34,592**	47,525	$ 32,670
Weighted average number of shares	**48,259**		46,661	

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

Warrants and convertible notes	2007 Number (000's)	2007 Amount $	2006 Number (000's)	2006 Amount $
Issued and outstanding, beginning of year	**1,000**	**$ 188**	250	$ 188
Issued for NPI acquisition (Note 10.c)	**-**	**-**	750	
Issued for farm-in agreements (Note 10.d)	**20**	**12**	-	-
Exercised (Note 10.e)	**(250)**	**(188)**	-	-
Expired	**(250)**	**-**	-	-
Issued and outstanding, end of year	**520**	**$ 12**	1,000	$ 188
Total equity instruments	**48,779**	**$ 34,604**	47,661	**$ 32,858**

At May 31, 2007, the Company has 20,000 (May 31, 2006 -250,000) warrants outstanding and 500,000 convertible notes (May 31, 2006 – 750,000). During the period, the Company issued 20,000 (2006 – nil) warrants. The outstanding warrants are exercisable as follows:

Number of Warrants	Warrant Price CDN$	Expiry Date
20,000	4.56	March 23, 2009

Thousands of United States Dollars, except where indicated

10. Equity Instruments – continued

(c) Net profit interest acquisition convertible notes: The Company issued three convertible notes hat rovided the holder with the option to convert the note, each 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 repaid in cash as the option was not exercised. After the financial year-end, the second convertible note which was due on July 30, 2007 was also repaid in cash as the option was not exercised.

(d) Warrants issued for farm-in agreements: On March 23, 2007, in accordance with an agreement with Delcosur the Company issued 20,000 non-transferable warrants to purchase common shares of the Company at an exercise price of CDN$ 4.56, and exercisable for a period of two years from the date of issuance. The fair value of these warrants was estimated using the Black Scholes option pricing model with the following assumptions: Dividend yield (CAD$ 0.035), Expected volatility (41%), risk free rate (3.97%) and a weighed average life of two years. As such, a fair value of $ 12 was attributed to these warrants.

(e) Warrants issued in satisfaction of financing fee: During August 2004, the Company issued 250,000 warrants at an exercise price of $3.75 per share in satisfaction of a financing fee on the facilities granted by Macquarie Bank Limited. The fair value of these options was estimated using the Black Scholes option pricing model with the following assumptions: Dividend yield (nil), Expected volatility (40%), risk free rate (3%) and a weighed average life of 2 years. As such a fair value of $ 188 was attributed to these warrants. The warrants were exercised during 2007.

(f) 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.

10. Equity Instruments – continued

The weighted average fair values of all stock options granted during 2007 and 2006 were CDN $ 6.1 and CDN $ 6.5 respectively, estimated as of the date of grant using the Black-Scholes option pricing model with the following average assumptions:

	2007	2006
Expected option life (years)	Range of 3.5 to 4 except for options granted to contractors for which the term of the contract was considered	3.0
Volatility	Range of 41% to 54%	60%
Risk-free interest rate	Range of 3.45% to 4.30%	Range of 3.50% to 4.75%
Dividend yield	Range of Nil to CAD 0.035	Nil

During the year $ 975 (2006 - $ 1,453) of compensation expense was recorded. At May 31, 2007 the aggregate unamortized fair value of unvested stock options granted amounted to $ 1,181 (2006 - $722).

The following table summarizes information regarding the Company's outstanding options as at May 31, 2007:

	Number of Shares (000's)	Option Price per Share Range CDN $	Weighted Average Exercise Price CDN $
Balance at beginning of year	2,567	$0.40 - $5.50	$3.03
Granted	1,601	$3..45 - $5.29	$4.29
Exercised	(756)	$0.40 - $3.00	$1.03
Cancelled	(108)	$3.45 - $4.50	$4.21
Balance at end of year	3,304	$0.75 - $5.50	$4.06

At year end there were 3,304,333 options outstanding, 1,706,333 are exercisable. The weighted average exercise price of the options outstanding at May 31, 2007 is CDN$ 4.06 (2006 - $CDN 3.03)

The following table summarizes information about the stock options outstanding at May 31, 2007:

Outstanding				Exercisable	
Options 000s	Range of option price CDN $	Weighted average Exercise Price CDN $	Weighted average remaining contractual life Years	Options 000s	Weighted average Exercise Price CDN $
461	0.75 – 3.00	1.81	1.41	461	1.81
1,200	3.01 – 4.00	3.76	3.95	260	3.86
963	4.01 – 5.00	4.55	3.47	344	4.51
680	5.01 – 5.50	5.34	3.57	641	5.33
3,304				1,706	

10. Equity Instruments – continued

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

Outstanding				Exercisable	
Options 000s	Range of option price CDN $	Weighted average Exercise Price CDN $	Weighted average remaining contractual life Years	Options 000s	Weighted average Exercise Price CDN $
1,217	0.75 – 3.00	1.33	1.94	1,217	1.33
260	3.01 – 4.00	3.86	2.93	260	3.86
831	4.01 – 5.00	4.51	4.31	-	-
259	5.01 – 5.50	5.42	3.80	200	5.40
2,567				1,677	

(g) Earnings per share

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

	2007	2006
Basic earnings per share		
Numerator		
Net earnings available to shareholders	**$14,554**	$10,583
Denominator		
Weighted average earnings per share	**48,258,892**	46,661,234
Basic earnings per share(cents per share)	**0.30**	0.23

	2007	2006
Diluted earnings per share		
Numerator		
Net earnings available to shareholders	**$14,554**	$10,583
Denominator		
Weighted average shares outstanding	**48,258,892**	46,661,234
Potential net incremental issue of shares from warrants	**20,833**	250,000
Potential net incremental issue of shares from stock options	**138,544**	1,262,625
Potential net incremental issue of shares from convertible notes	**250,000**	375,000
Shares outstanding plus assumed conversions	**48,668,269**	48,548,859
Diluted earnings per share (cents per share)	**0.30**	0.22

Thousands of United States Dollars, except where indicated

11. Contributed Surplus

The following table summarizes the movements in contributed surplus:

	2007	2006
Balance at beginning of the year	**$1,625**	$1,577
Stock based compensation	**975**	536
Commitment to issue stock options (a)	**917**	-
Transfer on exercise of employee option	**(220)**	(488)
Balance at end of year	**$3,297**	$1,625

(a) On May 2006, the Company committed to issue 421,000 options to the retiring CEO. A stock compensation expense for $ 917 was recorded in May 2006 against a liability for the commitment of the shares issue. During 2007 the shares were issued and the liability was transferred to contributed surplus.

12. Commitments and Contingencies

(a) On May 22, 2007 the Company executed with ABN AMRO NV Sucursal Montevideo a guarantee letter by which a line of credit of $2,500 was granted to the Company to be used for trade facilities, leasing, issuance of guarantees and general purposes. As of May 31 2007, $ 400 of this facility was drawn for leasing, $600 was used for the issuance of guarantees for mining permits and $ 230 was used for letter of credit facilities.

13. Income Taxes

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

Thousands of United States Dollars, except where indicated

13. Income Taxes - continued

	2007	2006
Income before taxes	**$ 17,604**	$ 13,226
Income tax rate (Canada)	**35%**	35%
Expected income tax expense	**6,161**	4,629
Tax effect of:		
Permanent Differences	**2,820**	(809)
Stock compensation expense	**245**	435
Difference between statutory tax rate and specific tax rates	**(1,707)**	(696)
Inflation adjustment	**(58)**	64
Foreign exchange gains/(losses)	**(478)**	(65)
Investment incentives (Notes 13 (e) and (f)	**(1,923)**	(1,768)
Tax losses not recognized	**32**	696
Use of tax losses not previously recognized	**(2,539)**	(2)
Under (Over) provision for prior financial year	**-**	(30)
Other differences	**497**	189
Income tax expense/benefit	**$ 3,050**	$ 2,643

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

	2007	2006
Balance beginning of year	**$ 1,855**	$ 1,787
Recognized future tax (expense)	**532**	68
Balance end of year	**$ 2,387**	$ 1,855

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

	2007	**2006**
Operating loss carry forwards	**434**	$ 3,970
Closure provisions	**431**	399
Hedge liability	**-**	695
Inventory	**191**	196
Deferred stripping	**(1,208)**	(1,175)
Royalty payable	**177**	-
Property plant and equipment and mine properties	**2,362**	2,340
Sub-total	**2,387**	6,425
Valuation allowance	**-**	(4,570)
Net future income tax asset	$2,387	$ 1,855

Thousands of United States Dollars, except where indicated

13. Income Taxes - continued

(c) Un-recognized tax benefits

At May 31, 2006 the Company had non capital loss carry forwards of $ 11,343 ($ 3,734, $ 3,194 and $ 4,415 in Canada, Uruguay and Barbados tax jurisdictions respectively) which were recognized for future tax purposes with an allowance when it was not completely certain about the recoverability.

During the year most of the tax losses were utilized and the remaining losses amounted to $ 1,509. The losses at gross value in the following jurisdictions and expiry dates are as follows:

	Canada	Uruguay	Barbados
Year to 31 May 2009	$ -	$ 1,009	$ -
Year to 31 May 2016	500	-	-
	$ 500	$ 1,009	$ -

In Uruguay the Company has deferred costs which result in available tax pools of $ 13,612 (2006 –$ 16,300) in exploration and development expenditures, which may be deductible against tax derived from future production income from the related properties. The deductibility of these expenditures will be based on the life of the reserves brought into production. In addition, the Company can seek tax relief for certain projects under existing Uruguayan legislation. Such relief may be granted on a project-by-project basis. It is the Company's intention to make application for such relief for projects as they near production.

(d) As a result of the Arenal project being granted national interest status under Uruguayan Investment Law tax benefits have been granted on capital investments of up to $ 19,300 over the 3 year period commencing June 1, 2004. These benefits include:

- relief from corporate tax on a total of up to $ 9,656 of taxable income has been granted for the 2006, 2007 and 2008 financial years. At the current tax rate of 25% in Uruguay this equates to a potential reduction of tax payable of $ 2,414. The whole benefit has been recognized.
- in addition, up to a further $ 9,656 in taxable income from the 2005, 2006, 2007 and 2008 financial years may be deferred to 2010. At the current tax rate of 25% in Uruguay this is equivalent to deferral of potential tax payments of up to a further $ 2,414. The whole benefit has been recognized and a tax payment of $ 2,414 has been deferred to 2010.The liability is shown as non current. An expense of $ 928 (2006 – 1,486) was recognized as current income tax expense.
- to receive the benefit, the taxable income to which the benefit applies needs to be retained in the business for a period of 5 years before it can be distributed as dividends.

(e) During the year other tax benefits applicable to investments in Uruguay were utilized resulting in a reduction of taxable income of $ 1,800 (2006 - $ 937) an income tax saving at 30% (the then Uruguayan tax rate) of $ 543 (2006 - $ 281) as of May 31 2007. Under the new tax reform in Uruguay the income tax rate was reduced from 30% to 25% for financial years starting July 1 2007.

Thousands of United States Dollars, except where indicated

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

	2007							
		Gold		**Exploration**		**Corporate**		**Total**
Net Sales	**$**	**63,056**	**$**	**-**	**$**	**-**	**$**	**63,056**
Amortization and depletion	**$**	**8,314**	**$**		**$**	**438**	**$**	**8,752**
Capitalized exploration write-off	**$**	**-**	**$**	**2,129**	**$**	**-**	**$**	**2,129**
Net Interest gain (loss)	**$**	**196**	**$**	**-**	**$**	**-**	**$**	**196**
Income tax	**$**	**3,050**	**$**	**-**	**$**	**-**	**$**	**3,050**
Net income gain (loss)	**$**	**20,300**	**$**	**(4,230)**	**$**	**(1,516)**	**$**	**14,554**
Property, plant and equipment	**$**	**22,678**	**$**	**1,972**	**$**	**1,235**	**$**	**25,885**
Deferred exploration and development	**$**	**-**	**$**	**16,316**	**$**	**-**	**$**	**16,316**
Capital Expenditure	**$**	**11,009**	**$**	**8,468**	**$**	**-**	**$**	**19,477**

	2006							
		Gold		Exploration		Corporate		Total
Net Sales	$	50,571	$	-	$	-	$	50,571
Amortization and depletion	$	8,742	$	-	$	-	$	8,742
Capitalized exploration write-off	$	-	$	-	$	-	$	-
Net Interest gain (loss)	$	(275)	$	-	$	-	$	(275)
Income tax	$	2,643	$	-	$	-	$	2,643
Net income (loss)	$	13,543	$	(1,456)	$	(1,504)	$	10,583
Property, plant and equipment	$	21,384	$	277	$	1,235	$	22,896
Deferred exploration and development	$	1,677	$	9,507	$	-	$	11,184
Capital Expenditure	$	10,329	$	6,096	$	1,228	$	17,653

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's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company financial performance.

15. Financial Instruments - continued

(a) Commodity Price Risk

The Company previously used financial derivatives to mitigate the effect of certain risks that are inherent in its business. As at May 31, 2007 the Company has settled all of its gold option contracts it has entered in the past to reduce its exposure to fluctuations in the gold price.
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)	**2007**	2006
Spot deferred	**$ -**	$ (220)
Gold put options	**-**	-
Gold call options	**-**	(2,097)
	$ -	$ (2,317)

(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 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.

16. Statement of Cash Flows

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

	2007	2006
Accounts receivable	**$ (576)**	$ 86
Prepaid expenses	**(35)**	110
Inventories	**(287)**	(1,588)
Accounts payable and accrued liabilities	**2,079**	(737)
	$ 1,181	$ (2,129)

(b) Supplementary cash flow information:

	2007	2006
Cash income tax paid	**$ 963**	$ 663
Cash interest paid	**$ 155**	$ 272