

URUGUAY MINERAL EXPLORATION



**Uruguay Mineral Exploration Inc.  
Consolidated Financial Statements  
For the years ended May 31, 2009 and 2008**

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## 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 Audit Committee, conduct an audit in accordance with Canadian generally accepted auditing standards. The Audit Committee of the Company meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to approval of the consolidated financial statements.

Ignacio Salazar

Chief Financial Officer

David Fowler

Chief Executive Officer

August 11, 2009

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## 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, 2009 and 2008 and the consolidated statements of income, comprehensive income and retained earnings, cash flows and changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP

Chartered Accountants  
Licensed Public Accountants  
Toronto, Ontario, Canada  
August 13, 2009

**Uruguay Mineral Exploration Inc.**  
**Consolidated Balance Sheets**

Thousands of United States Dollars, except where indicated

<b>As at May 31</b>	<b>2009 (\$)</b>	<b>2008(\$)</b>
<b>Assets</b>		
Cash	9,496	18,601
Accounts receivable (Note 4)	2,899	2,810
Inventories (Note 5)	17,642	16,749
Prepaid expenses	915	1,004
<b>Total current assets</b>	<b>30,952</b>	<b>39,164</b>
Property, plant and equipment and mineral properties (Note 6)	16,953	29,681
Deferred exploration (Note 7)	12,437	8,948
Future income tax assets (Note 12)	3,001	5,375
Restricted cash	173	191
<b>Total non current assets</b>	<b>32,564</b>	<b>44,195</b>
<b>Total assets</b>	<b>63,516</b>	<b>83,359</b>

**Liabilities and Shareholder's Equity**

Accounts payable and accrued liabilities	7,354	8,816
Fair value of derivatives	464	0
Restructure plan (Note 17)	250	0
Current portion of long term debt (Note 8)	37	2,275
<b>Total current liabilities</b>	<b>8,105</b>	<b>11,091</b>
Long term tax payable (Note 12)	0	2,414
Long term debt (Note 8)	0	25
Asset retirement obligation (Note 9)	2,862	2,869
<b>Total non-current liabilities</b>	<b>2,862</b>	<b>5,308</b>
<b>Total liabilities</b>	<b>10,967</b>	<b>16,399</b>
Capital stock	34,642	35,043
Warrants and convertible notes (Note 10)	0	12
Contributed surplus	4,239	3,882
Accumulated other comprehensive income	(19)	(19)
Retained earnings	13,687	28,042
Total shareholders' equity	52,549	66,960
<b>Total liabilities and shareholders' equity</b>	<b>63,516</b>	<b>83,359</b>

Commitments and contingencies (Note 11)

Approved on behalf of the Board:

David Fowler  
Director

Ignacio Salazar  
Director

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

**Uruguay Mineral Exploration Inc.**  
**Consolidated Statements of Income, Comprehensive Income and Retained Earnings**

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

<b>For the years ended May 31</b>	<b>2009 (\$)</b>	<b>2008 (\$)</b>
<b>Net sales</b>	<b>63,376</b>	79,061
Operating expenses	<b>51,354</b>	38,947
Amortization and depreciation	<b>19,926</b>	15,724
<b>Operating expenses</b>	<b>71,280</b>	54,671
<b>Sub-total</b>	<b>(7,904)</b>	24,390
<b>Other (expenses) income</b>		
Stock based compensation expense	<b>(345)</b>	(792)
Non-hedged derivative	<b>(464)</b>	0
Exploration expenses written off (Note 7)	<b>(2,694)</b>	(11,103)
General and administrative expense	<b>(3,809)</b>	(4,605)
Net Interest and debt accretion income (loss)	<b>27</b>	346
Other income	<b>107</b>	206
Foreign exchange	<b>48</b>	238
	<b>(7,130)</b>	15,710
<b>Income (loss) before taxes</b>	<b>(15,034)</b>	8,680
Recovery of (provision) for income taxes (Note 12)	<b>679</b>	(882)
<b>Net and comprehensive income (loss) for the year</b>	<b>(14,355)</b>	7,798
<b>Retained earnings, beginning of year</b>	<b>28,042</b>	22,986
<b>Dividends</b>	<b>0</b>	(2,742)
<b>Retained earnings, end of year</b>	<b>13,687</b>	28,042
<b>Earnings (loss) per common share</b>		
<b>Basic (Note 16)</b>	<b>(0.29)</b>	0.16
<b>Diluted (Note 16)</b>	<b>(0.29)</b>	0.16
<b>Weighted average shares outstanding</b>		
Basic	<b>48,671,435</b>	48,911,779
Diluted	<b>48,848,803</b>	48,924,272

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

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

<b>For the years ended May 31</b>	<b>2009 (\$)</b>	<b>2008 (\$)</b>
<b>Operating activities</b>		
Net income (loss) for the year	(14,355)	7,798
<i>Adjustments for :</i>		
Amortization and depletion	19,926	15,724
Exploration expenses written off	2,694	11,103
Fair value of derivatives	464	0
Accretion of debt	80	252
Future income taxes	(40)	(2,988)
Restructure plan	250	0
Stock based compensation	345	792
Others	40	384
	<u>9,404</u>	<u>33,065</u>
Net change in non-cash working capital balances (Note 15)	<u>(2,355)</u>	<u>(6,579)</u>
	<u>7,049</u>	<u>26,486</u>
<b>Financing activities</b>		
Proceeds from the issue of share capital	0	592
Share repurchases (Note 10 (c))	(401)	(406)
Payments of finance lease net of draw downs	(175)	(188)
Dividends	0	(2,742)
	<u>(576)</u>	<u>(2,744)</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment and development costs	(5,472)	(9,159)
Exploration expenditure	(10,106)	(9,960)
	<u>(15,578)</u>	<u>(19,119)</u>
Increase (decrease) in cash	(9,105)	4,623
Cash at the beginning of year	<u>18,601</u>	<u>13,978</u>
<b>Cash at the end of year</b>	<b>9,496</b>	<b>18,601</b>

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

**Uruguay Mineral Exploration Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
Thousands of United States Dollars, except where indicated

For the years ended May 31	May 31, 2009		May 31, 2008	
	Number (000's)	Amount (\$)	Number (000's)	Amount (\$)
<b>Common shares</b>				
Balance at beginning of year	48,811	35,043	48,531	34,592
Exercise of stock options	0	0	410	857
Share repurchases	(144)	(401)	(130)	(406)
Balance at end of year	<u>48,667</u>	<u>34,642</u>	<u>48,811</u>	<u>35,043</u>
<b>Warrants and convertible notes</b>				
Balance at beginning of year	270	12	520	12
Expired warrants	(270)	0	(250)	0
Transfer to contributed surplus		(12)		
Balance at end of year	<u>0</u>	<u>0</u>	<u>270</u>	<u>12</u>
<b>Contributed surplus</b>				
Balance at beginning of year		3,882		3,297
Employee stock based compensation recognized		345		792
Transfer to common shares		0		(207)
Transfer from warrants and convertible notes		12		0
Balance at end of year		<u>4,239</u>		<u>3,882</u>
<b>Accumulated other comprehensive income</b>				
Balance at beginning of year		(19)		(19)
Movement for the year		0		0
Balance at end of year		<u>(19)</u>		<u>(19)</u>
<b>Retained earnings</b>				
Balance at beginning of year		28,042		22,986
Net income (loss) for the year		(14,355)		7,798
Dividends		0		(2,742)
Balance at end of year		<u>13,687</u>		<u>28,042</u>
Shareholders' equity at end of year		<u>52,549</u>		<u>66,960</u>

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

May 31, 2009 and 2008

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## 1. Nature of Operations

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

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 (AIM) of the London Stock Exchange in the United Kingdom.

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## 2. Significant Accounting Policies

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The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The reference to "the Company" in these consolidated financial statements includes the parent and all of its subsidiaries.

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment 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.

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## 2. Significant Accounting Policies - continued

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- (d) Property, plant and equipment and mineral properties: Property, plant and equipment is recorded at cost less accumulated amortization. Plant and other equipment are amortized on a straight line method over the estimated productive life of the asset. Productive lives for mobile and other equipment range from 2 to 5 years.

Mineral properties include:

- Development costs incurred to bring a mining property into production develop new ore bodies or develop mining areas in advance of production, including stripping cost in a pre-production phase. Development costs are capitalized when a mine plan has been prepared, proven and probable reserves have been established, and the Company has decided to commercially develop the property. Development expenditure is accumulated separately for each area in which economically recoverable mineral resources have been identified and are reasonably assured.
- Deferred Exploration once mineral resources have been identified in the property and incorporated to the Company's resource statements.

No amortization is provided in respect of mineral properties until commencement of commercial production. Mineral properties are amortized and charged to operations using the units of production method based on the estimated life of mine considering recoverable proven and probable reserves. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoverable from cash flows to be derived from the sale of production is reasonably assured. Amounts shown as development costs are net of revenue prior to commercial production.

- (e) Impairment of assets: The Company regularly reviews the carrying values of its producing mining assets for possible impairment. The Company estimates future cash flows from those assets and compares this amount with the carrying value. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

Estimated future cash-flows includes estimates of recoverable resources and commodity prices (considering historical prices, price trends and related factors) and estimated production related expenses discounted by the Company's weighted average cost of capital with appropriate adjustment for the risk associated with the relevant unit. Estimates of future net cash flows are based on ore reserves and mineral resources for which there is a high degree of confidence of economic extraction.

- (f) Deferred exploration: Exploration and evaluation expenditure is capitalized under areas of interest defined by the Company and carried forward as an asset until management has made a positive decision to develop the project or written down when events or changes in circumstances indicate that its carrying amount may not be recoverable. The excess of carrying value over fair value is charged to income. When mineral resources are to develop the area of interest exploration and evaluation expenditures are reclassified and shown as a Mineral Property asset.

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## 2. Significant Accounting Policies - continued

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Expenditure to be capitalized includes direct cost attributable to the exploration and evaluation projects, such as topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching and sampling and of the acquisition of rights to explore. Overhead costs that are directly attributable to exploration and evaluation activities, but not directly attributable to an individual project or area, such as general advisory, the cost of a central exploration office or the cost of a mining tenements office are allocated to areas of interest and capitalized. Borrowing costs derived from the exploration and evaluation activities financing, exchange differences related to monetary assets and liabilities associated to the exploration activities and depreciation of property, plant and equipment used in the exploration activities are not capitalized and recognized as expenses as they are incurred.

The recoverability of amounts shown for deferred exploration and evaluation is dependent upon the discovery of economically recoverable reserves. The exploration assets are reassessed on a regular basis for impairment. An impairment of an exploration asset occurs when at least one the following conditions are met:

- the Company's right to explore in an area of interest has expired or will expire in the near future and is not expected to be renewed;
- the Company has strategically decided to discontinue activities in the area of interest;
- substantive exploration expenditure on further exploration in the area of interest is neither budgeted nor planned in the near future and no negotiations to sell the project or farm it out are planned or considerably advanced;
- no substantive exploration expenditure has been done in the area of interest during the last three years.

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

- (g) Inventories: Inventories include supplies and materials, ore stockpiles, gold in circuit and finished goods, and are measured at the lower of cost or net realizable value.

Materials and supplies include consumable stores and spare parts used in operations. Appropriate allowances for damage, obsolescence and slow moving items are recorded based on an identification process. Spare parts include spares that are regularly replaced, usually as part of a replacement programme (circulating spares). However, major spare parts on hand to ensure the uninterrupted operation of the production equipment before an unexpected breakdown or equipment failure and stand-by equipment are accounted for as property, plant and equipment and depreciated over the same period as the component they are associated with.

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

May 31, 2009 and 2008

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## 2. Significant Accounting Policies - continued

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Gold in circuit represent materials that are currently being converted to a saleable product and are measured based on assays of the material fed to the processing plants and expected recoveries. Value of the inventory is at the lower of average cost and net realizable value.

Finished metal inventories include gold and silver dore bullions before refining, and finished gold and silver ingots, and are valued at average production cost and are not marked to market. Average production cost represents the average cost of in process inventories prior to the refining process and any relevant refining costs. Sales and refining costs are not part of the cost of inventories.

Cost of inventories are determined using the absorption method which includes all the costs of purchase and conversion, including costs that are directly related to production and an allocation of fixed and variable production overheads, including depreciation of mine properties and of property, plant and equipment used in mining and processing the ore.

- (h) Future income taxes: The Company uses the assets and liability method to account for future income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and calculated using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related future income tax asset is realized or the future income tax liability is settled.

Future income tax assets are recognized to the extent that is more likely than not that losses available for carry forward will be used to offset future income taxes. The effect on future income tax assets and liabilities of a change in rates is included in the period during which the change is substantively enacted.

- (i) Asset retirement obligations: Asset retirement obligations include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas.

The estimated fair value of asset retirement obligations is provided for in the accounting period when the legal obligation arising from the related disturbance occurs. A technique based on the net present value of estimated future costs is used to estimate the fair value of the liability. Asset retirement obligations are a normal consequence of mining, and the majority of close down and restoration expenditure is spent at the end of the life of the mine. Costs are annually estimated on the basis of a closure plan to reflect known developments, update costs estimates and revise estimated lives of operations, and are subject to formal reviews at regular intervals. Although the ultimate cost to be incurred is uncertain, the Company's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques and industry guidelines, on a site by site basis.

May 31, 2009 and 2008

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## 2. Significant Accounting Policies - continued

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Upon initial recognition of a liability for an asset retirement obligation, an asset retirement obligation is capitalized by the same amount of the liability within property, plant and equipment. The asset retirement cost is expensed using a systematic and rational method over its useful life, mostly the unit of production method based on estimated proven and probable reserves as determined by independent engineers, and is included as an operation cost. In subsequent periods, the Company recognizes the changes in the liability for an asset retirement obligation resulting from the passage of time and the revisions to either the timing or amount of the original estimate of undiscounted cash flows.

Changes resulting from revisions to the timing or the amount of the original undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability for an asset retirement obligation against the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

Changes due to the passage of time, meaning the "unwinding" of the discount applied in establishing the net present value of the liability, is charged to the income statement in each accounting period.

As noted above, the ultimate cost of the close down and restoration is uncertain and costs estimated can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experiences at other mine sites. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for close down and restoration which would affect future financial results.

- (j) Revenue recognition: Revenue from mining operations is recognized after shipment of gold to third party refineries, when the sales price is determinable, title has passed to the customer and collection of the sale is reasonably assured. Sales include government incentives provided to the Company for the export sales as the incentive is based on the value of exports.
- (k) Stock-based compensation plan: The Company has a stock-based compensation plan and recognizes compensation expense for option awards. Compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and is recognized over the vesting period with a corresponding increase to contributed surplus. Upon exercise, the proceeds of the options are credited to capital stock at the option price and the fair value of the options, as previously recorded, is reclassified from contributed surplus to capital stock. Stock options issued to persons other than employees are accounted for at fair value and deferred and amortized over the relevant service period.

The Company elected to adopt the fair value base method of accounting for stock-based compensation on a prospective basis, applied to awards granted under the plan since March 2003. For awards granted prior to that date the Company applies the settlement method, in that no compensation expense is recorded, and when the options are exercised, share capital is increased in the amounts of the proceeds received.

May 31, 2009 and 2008

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## 2. Significant Accounting Policies - continued

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- (l) Derivatives: Financial derivatives are marked to market with the fair value of the derivative instruments recognized as unrealized gains and losses in the statement of income.
  - (m) Earnings per share: Basic earnings per common share are computed by dividing the net profit by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution effect of "in the money" securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine diluted per share amount which assumes that all outstanding stock options grants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common share at the average market price during the year.
  - (n) Joint venture: Certain of the Company's exploration and development activities may be conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.
  - (o) Reclassification: Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.
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## 3. Recent accounting pronouncements

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Effective June 1, 2008 the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031 "Inventories" was issued and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and eliminates the use of the "last-in, first-out" method of accounting. Adoption of this standard did not have any material effect on the financial statements.

In January 2009, the CICA issued EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the entity to consider its own credit risk as well as the credit risk of its counterparties when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the Company's 2009 fiscal year, commencing January 1, 2009 and is required to be applied retrospectively without restatement to prior periods. The adoption of this pronouncement did not have a material impact on the valuation of the Company's financial assets or financial liabilities.

In March 2009, the CICA issued EIC 174 "Mining Exploration Costs". This abstract discusses the analysis recommended to be performed to determine if there has been an impairment of mineral exploration properties. The Company considered the recommendations discussed in the Abstract effective for fiscal periods ending after March 31, 2009 when testing for impairment of mineral properties in the period and no impairment adjustments were required.

May 31, 2009 and 2008

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### 3. Recent accounting pronouncements – continued

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CICA Handbook Section 3064 “Goodwill and intangible assets” provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. This standard is effective for fiscal years beginning on or after October 1, 2008 and requires retroactive application to prior period financial statements. The Company has evaluated the impact of this new standard for adoption on June 1, 2009 and does not expect any significant impact on its consolidated financial statements.

CICA Handbook Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests” which replace the former CICA 1581 “Business Combinations” and CICA 1600 “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to FASB Statements No.141(R) “Business Combinations” and No.160 “Non-Controlling Interests in Consolidated Financial Statements”. CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period after June 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after June 1, 2011 although early adoption is permitted. CICA 1582, which replaces Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. CICA 1601, which replaces Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. CICA 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination.

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### 4. Accounts Receivable

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	<u>2009 (\$)</u>	<u>2008 (\$)</u>
Receivables	73	46
Other Tax receivables	2,826	2,764
	<u>2,899</u>	<u>2,810</u>

Other tax receivables consist of refunds for Canadian GST, Uruguayan Value Added Tax (VAT) refunds and Uruguayan export tax refunds (based on a percentage of FOB value of the export value of Dore).

**Uruguay Mineral Exploration Inc.**  
**Notes to Consolidated Financial Statements**  
Thousands of United States Dollars, except where indicated

May 31, 2009 and 2008

**5. Inventories**

	2009 (\$)	2008 (\$)
Ore in stockpiles	6,121	5,168
Gold in circuit	862	1,462
Finished metals	802	1,052
Materials and supplies	9,857	9,067
	<u>17,642</u>	<u>16,749</u>

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

	Cost	2009 (\$) Accumulated Amortization and Depletion	Net Book Value
Land and lease rights	2,088	0	2,088
Plant and equipment	31,035	22,091	8,944
Asset retirement obligation	2,687	2,687	0
Deferred stripping asset	4,829	4,829	0
Mineral properties	31,075	25,154	5,921
	<u>71,714</u>	<u>54,761</u>	<u>16,953</u>
		2008 (\$)	
	Cost	Accumulated Amortization and Depletion	Net Book Value
Land and lease rights	2,088	0	2,088
Plant and equipment	28,015	16,274	11,741
Asset retirement obligation	2,762	1,752	1,010
Deferred stripping asset	4,829	2,480	2,349
Mineral properties	26,906	14,413	12,493
	<u>64,600</u>	<u>34,919</u>	<u>29,681</u>

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

May 31, 2009 and 2008

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

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- (b) Included in property, plant and equipment is \$ 1,262 (2008 - \$ 814) of major spare parts that are amortized on a straight line basis over a period of between two to four years. These major spare parts are maintained to ensure the uninterrupted operation of the production equipment before an unexpected breakdown or equipment failure.
- (c) Included under Mineral properties are \$ 2,041 (2008 - \$ 3,691) of pre-production stripping costs related to San Gregorio East pit which started commercial production during the current year. The costs are being amortized using the units of production method based on the estimated life of the pit.
- (d) Included under Mineral properties is the expenditure incurred to divert the Arroyo Corrales River that allowed access to reserves of the El Arenal deposit. The accumulated costs were \$ 4,644 and were amortized using the unit of production method based on the estimated life of mine. During 2009 the accumulated costs have been completely amortized as the El Arenal deposit was exhausted (2008 – net book value of \$ 1,020).
- (e) During 2005, the Company acquired the 10% net profit interest over key tenements within the Minas de Corrales project, including the tenement on which the El Arenal deposit is located. This agreement terminated the Company's obligation to pay the holder a 10% Net Profit Interest (NPI) of the net profits derived from gold produced from the area defined in the NPI. An amount of \$ 4,471 is shown under Mineral properties and was amortized using the unit of production method based on the estimated life of the El Arenal deposit. During 2009 the accumulated costs have been completely amortized as the El Arenal deposit was exhausted (2008 – net book value of \$ 1,242).
- (f) Effective June 1, 2007, the Company adopted the new recommendations issued by the Canadian Institute of Chartered Accountants (CICA – EIC 160 "Stripping costs incurred in the production phase of a mining operation"), which require that the deferred costs previously capitalized needed to be amortized over the remaining reserves accessed by the stripping activity using the unit of production method. During the year the El Arenal deposit was exhausted and all capitalized stripping costs have been fully depreciated.
- (g) Included under Property, plant and equipment are leased vehicles which are depreciated on a straight line method over four years. At May 31, 2009, the leased vehicles had a total gross value of \$ 457 (2008 - \$ 457) and an accumulated depreciation of \$ 314 (2008 – \$ 210).

May 31, 2009 and 2008

## 7. Deferred Exploration

	<b>2009 (\$)</b>	2008 (\$)
Balance at beginning of year	<b>8,948</b>	16,316
Payments for exploration expenditure during the year	<b>10,106</b>	9,910
Payments for exploration acquisitions and options during the year	<b>0</b>	50
Reclassification to mineral properties	<b>(3,923)</b>	(6,225)
Exploration expenses written off	<b>(2,694)</b>	(11,103)
Balance at the end of the year	<b>12,437</b>	8,948

During the year, management determined that the carrying value of certain capitalized exploration expenditure and attributed to specific projects was impaired as substantive expenditure or further exploration and evaluation activities in those areas is neither budgeted nor planned. Exploration expenditures incurred during the year to evaluate the acquisition of mineral projects prior to obtaining an exploration license (pre-exploration expenses) were also expensed. The total amount expensed was \$2,694 (2008 - \$11,103).

Capitalized exploration expenditure of \$3,923 (2008 – \$6,225) was reclassified as an intangible asset under Mineral Properties as they were related to areas in which a mineral resource was determined.

### **Farm-in / Farm-out agreements:**

- (a) During May 2009, the Company signed a farm-out agreement with Olivut Resources Ltd. (Olivut) on its diamonds properties. According to the agreement, Olivut may earn up to 80% interest in diamond prospecting and exploration licenses located in Northern Uruguay acting as operator of the exploration program. Olivut must incur a minimum expenditure of CDN\$ 250,000 by June 1, 2010 and a total of CDN\$ 750,000 by December 31, 2011 in order to acquire a 51% interest in the Properties.
- (b) In 2007 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. ("Delcosur").

The Company is required to spend \$ 1,050 on exploration over three years to exercise its option to acquire 100% of 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 will issue Delcosur or its nominees a further 350,000 non-transferable warrants to purchase common shares of the Company at a price calculated at a 20% premium over the five day average trading price prior to the issuance and will be exercisable for a period of two years from the date of issuance.

As of May 31, 2009, \$ 674 (2008 - \$ 566) has been incurred under the farm in agreement on the Delcosur properties and an amount of \$ 598 (2008 - \$0) was written off as some areas included under the agreement have been discarded from future exploration.

May 31, 2009 and 2008

**7. Deferred Exploration – continued**

(c) The Company has the right to purchase shares of a Uruguayan company, Davinco S.A (“Davinco”) that owns the Presidente Terra project pursuant to an agreement dated May 14, 1997. Under this agreement the Company has the option to purchase 80% of the issued share capital of Davinco for the amount of \$ 750 payable in installments, and the remaining 20% once a decision has been made to develop a mining operation, at a variable price. At May 31, 2009 \$475 of the \$ 750 has been paid, with the remaining installment of \$ 275 due within five days after completing a feasibility study on the Presidente Terra project.

**Acquisitions:**

(d) The Company previously purchased a Uruguayan diamond database. Under the terms of the agreement the vendor was paid \$ 20 and is entitled to an additional 0.8% royalty on any net diamond sales from any diamond deposit discovered by the Company in Uruguay. A further 0.2% royalty will be paid to a third party, who has an interest in the database.

(e) For the Texas and Mal Abrigo projects the Company has committed to pay a 2% net profits interest and a 2% net smelter return respectively, payable to the vendor. The Company may repurchase the net smelter return of the Mal Abrigo project at any time by paying a lump sum of \$ 650.

**Exploration performance bonds:**

(f) The Uruguay mining legislation requires all mining titles to be supported by guarantees to cover the cost any environmental rehabilitation requirements resulting from exploration activities. The Company has facility agreements with Uruguayan local insurance companies and banks to support the required guarantees. The total guarantees provided at May 31, 2009 to support exploration activities on tenements granted were approximately \$ 3,445 (2008 - \$ 2,164).

**8. Long Term Debt**

	2009 (\$)	2008 (\$)
Deferred payment on net profit interest acquisition (a)	0	2,088
Finance lease (b)	37	212
	37	2,300
Less current portion	(37)	(2,275)
	0	25

May 31, 2009 and 2008

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## 8. Long Term Debt – continued

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- (a) 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 of the 10% net profit interest over key tenements within the Minas de Corrales project. The three convertible notes were payable on or before July 30, 2006, July 30, 2007 and July 30, 2008 respectively. Each convertible note was convertible into 250,000 common shares during a 30 day period prior to the final payment date for each installment. No interest accrues on the notes. An additional conditional payment of \$ 1,050 was due based on the price of gold during the 36 month period preceding the third anniversary date. All notes and the conditional payment have been settled in cash and no obligation remains outstanding.
- (b) On May 31, 2006 a subsidiary of the Company signed a financial lease facility agreement of \$ 500 with Banco Santander (Uruguay) S.A. 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 May 31, 2009, \$ 37 has been drawn under this facility. The vehicles purchased are included under Property, Plant and Equipment.

(c) Long term debt repayments are as follow:

Year ending	Lease installments Nominal value
2010	\$ 37
Total	\$ 37

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## 9. Asset Retirement Obligations

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

The asset retirement obligations have been recorded as a liability at estimated fair value determined by calculating the net present value of estimated future costs, assuming a weighed average cost of capital of 8.5% (2008 – 8.5%) and an inflation factor of 2.5% (2008 – 3.4%).

The following table summarizes the movements in the asset retirement obligation for the years ended May 31, 2009 and 2008.

May 31, 2009 and 2008

## 9. Asset Retirement Obligations – continued

	2009 (\$)	2008 (\$)
Balance at beginning of year	2,869	2,036
Changes in cash flow estimates	(75)	735
Accretion expense	68	98
Balance at end of year	2,862	2,869

Management's estimates of future cash flows were revised during the year. Changes in estimation relate to a deferral of one year in main restoration tasks, including the sealing of tailings dams and dismantling the operation's infrastructure. The liability for the asset retirement obligation on an undiscounted basis is estimated to be approximately \$ 3,410 of which approximately \$ 2,528 is expected to be incurred from 2012.

Uruguayan mining and environmental legislation requires environmental obligations to be supported by guarantees. As a result, a rehabilitation guarantee letter of credit of \$1,500 (2008 - \$1,500) has been provided by HSBC Bank (Uruguay) S.A.

## 10. Equity Instruments

- (a) Authorized: Unlimited number of common shares of no par value
- (b) Warrants issued for farm-in agreements: On March 23, 2007 in accordance with an agreement with Delcosur (note 7b), 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. These warrants expired unexercised during the year.
- (c) Share repurchase: The Company repurchased under a normal course issuer bid, and over calendar year 2008, 274,200 of its common shares for cancellation for a consideration of \$ 807. Details of share transactions are provided below:

Number of shares repurchased	Financial year	Weighted average market price (CDN\$)	Total invested
130,400	2007 – 2008	3.16	406
143,800	2008 - 2009	2.85	401
274,200		2.94	807

- (d) Net profit interest acquisition convertible notes: The Company issued three convertible notes with a face value of \$ 1,050 that provided the holder with the option to convert the note, into 250,000 common shares. The last of the convertible notes expired July 30, 2008 and none of the three convertible notes were converted into shares.

May 31, 2009 and 2008

## 10. Equity Instruments - continued

- (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. Options vest lineally over a three year period that may start at the time they are granted or on the first year anniversary after granted.

The weighted average fair values of all stock options granted during 2009 and 2008 were CDN\$0.83 and CDN\$4.26 respectively, estimated as of the date of grant using the Black-Scholes option pricing model with the following average assumptions:

	2009	2008
Expected option life (years)	Range of 2.2 to 3.1	3.1
Volatility	Range of 55% to 95%	42%
Risk-free interest rate	Range of 1.10% to 3.12%	Range of 4.22% to 4.28%
Dividend yield	Nil	CDN\$0.055

During the year \$ 345 (2008 - \$ 792) of compensation expense was recorded. At May 31, 2009 the aggregate unamortized fair value of unvested stock options granted amounted to \$ 292 (2008 - \$879).

At May 31, 2009 there were 3,172,250 options outstanding, of which 1,818,750 are exercisable (2008 – 2,859,000 and 1,216,000 respectively). The weighted average exercise price of the options outstanding at May 31, 2009 is CDN\$ 2.98 (2008 CDN\$ 3.99)

The following table summarizes information regarding the Company's outstanding options at May 31, 2009:

	Number of Shares (000's)	Option Price per Share Range CDN \$	Weighted Average Exercise Price CDN \$
Balance at May 31, 2007	3,304	\$0.75 - \$5.50	\$4.06
Granted	824	\$3.15 - \$3.30	\$3.28
Exercised, cancelled and forfeited	(1,269)	\$0.75 - \$5.29	\$3.71
Balance at May 31, 2008	2,859	\$3.00 - \$5.50	\$3.99
Granted	983	\$0.38 - \$0.60	\$0.59
Exercised, cancelled and forfeited	(670)	\$0.60 - \$4.77	\$3.78
Balance at May 31, 2009	3,172	\$0.38 - \$5.50	\$2.98

May 31, 2009 and 2008

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**10. Equity Instruments - continued**

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Range of option price CDN \$	Outstanding			Exercisable	
	Options 000s	Weighted average Exercise Price CDN \$	Weighted average remaining contractual life Years	Options 000s	Weighted average Exercise Price CDN \$
0.00 – 0.60	924	0.59	4.40	308	0.59
0.61 – 3.00	55	3.00	0.01	55	3.00
3.01 – 4.00	1,501	3.57	2.89	774	3.66
4.01 – 5.00	433	4.54	1.37	423	4.53
5.01 – 5.50	259	5.42	0.79	259	5.42
	<u>3,172</u>	<u>2.98</u>	<u>2.90</u>	<u>1,819</u>	<u>3.57</u>

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**11. Commitments and contingencies**

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- (a) On May 22, 2007 the Company executed with Banco Santander (Uruguay) S.A. 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 2009, \$ 37 was drawn for leasing, and \$ 801 was used for the issuance of guarantees for mining permits.
- (b) Commitments and contingencies for exploration acquisitions are shown in note 7.

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**12. Income Taxes**

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

May 31, 2009 and 2008

**12. Income Taxes – continued**

	<b>2009 (\$)</b>	2008 (\$)
Balance beginning of year	5,375	2,387
Recognized future tax income (expense)	<b>(2,374)</b>	2,988
Balance end of year	<b>3,001</b>	5,375

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

	<b>2009 (\$)</b>	2008 (\$)
Property plant and equipment and mineral properties	2,830	4,789
Other assets and liabilities	171	586
Net future income tax asset	<b>3,001</b>	5,375

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

Tax losses

At May 31, 2009 the Company had non capital loss carry forwards of \$ 16,167 (2008 - \$ 9,662). The losses at gross value by tax jurisdictions expire as shown in the following table:

	<b>Canada</b>	<b>Uruguay</b>	<b>Barbados</b>
Year to 31 May 2010	0	324	0
Year to 31 May 2011	0	7,129	0
Year to 31 May 2014	0	3,714	0
Year to 31 May 2018	0	0	1,800
Year to 31 May 2026	858	0	0
Year to 31 May 2028	1,190	0	0
Year to 31 May 2029	1,152	0	0
	<b>3,200</b>	<b>11,167</b>	<b>1,800</b>

Management believes is not appropriate to recognize a future tax asset on tax loss carry forwards even though there is evidence in the past of the existence of operating profits. Such a decision is based on the uncertainty there will be sufficient future taxable income.

Rehabilitation plan

Expenses estimated and accrued to determine the environmental restoration liability will be deductible for income tax purposes at the time restoration expenses are paid. Given the uncertainty there will be sufficient future taxable income at time of restoration, no future tax asset is recognized for the environmental liability of \$ 2,862 (2008 - \$ 2,869)

May 31, 2009 and 2008

**12. Income Taxes – continued**

Exploration expense pool

In Uruguay, the Company has deferred exploration expenditure which result in available tax pools of \$ 12,800 (2008 - \$ 9,752), which may be deductible against tax derived from future production income. Given the uncertainty there will be sufficient future taxable income no future tax asset has been recognized

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

	<b>2009 (\$)</b>	2008 (\$)
Income before taxes	<b>(15,034)</b>	8,680
Income tax rate	<b>34%</b>	34%
Expected income tax expense	<b>(5,111)</b>	2,951
<i>Tax effect of:</i>		
Effect of lower tax rates	<b>1,523</b>	(347)
Inflation adjustment	<b>(509)</b>	(726)
Foreign exchange	<b>2,159</b>	(2,856)
Investment incentives	<b>0</b>	(238)
Tax losses not recognized	<b>1,593</b>	2,068
Other permanent differences	<b>778</b>	517
Benefit not previously recognized (*)	<b>(1,112)</b>	(487)
Income tax expense (recovery)	<b>(679)</b>	882
 Comprising		
Current income tax provision (recovery)	<b>(639)</b>	3,870
Future income tax provision (recovery)	<b>2,374</b>	(2,988)
Long term tax liability reversal (**)	<b>(2,414)</b>	0
	<b>(679)</b>	882

(\*) During the year the Uruguayan government granted an investment tax benefit of \$ 1,112 which reduced taxable income in 2008. This benefit was not previously recognized for accounting purposes.

(\*\*)The El Arenal project was previously designated national interest status under Uruguayan investment law and was granted investment tax benefits of \$9,656. The associated tax liability of \$2,414 is payable during the period up to 2010. This tax liability was included in the determination of taxable income for 2009.

**Uruguay Mineral Exploration Inc.**  
**Notes to Consolidated Financial Statements**  
Thousands of United States Dollars, except where indicated

May 31, 2009 and 2008

**13. 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.

	2009 (\$)			Total
	Gold	Exploration	Corporate	
Net sales	63,376	0	0	63,376
Amortization and depletion	19,238	688	0	19,926
Deferred exploration expenses written off	0	2,694	0	2,694
Net Interest income	27	0	0	27
Income tax recovery	679	0	0	679
Net income loss	(7,559)	(5,006)	(1,790)	(14,355)
Property, plant and equipment	14,696	1,022	1,235	16,953
Deferred exploration	0	12,437	0	12,437
Capital expenditure	5,446	26	0	5,472

	2008 (\$)			Total
	Gold	Exploration	Corporate	
Net Sales	79,061	0	0	79,061
Amortization and depletion	15,084	640	0	15,724
Deferred exploration expenses written off	0	11,103	0	11,103
Net Interest income	346	0	0	346
Income tax provision	882	0	0	882
Net income (loss)	23,551	(13,904)	(1,849)	7,798
Property, plant and equipment	27,214	1,232	1,235	29,681
Deferred exploration	0	8,948	0	8,948
Capital expenditure	8,834	325	0	9,159

May 31, 2009 and 2008

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## 14. Financial Instruments

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The Company's activity exposes it to a variety of financial risks, mainly to commodity price risk and currency risk. The Company overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

- (a) Commodity Price Risk: The Company discretionally uses financial derivatives to mitigate the risk of gold price fluctuations.

During the current financial year, the Company committed to a forward contract of 45,000 ounces at a forward price of \$ 796.25 per ounce. As at May 31, 2009 there were about 2,576 gold ounces outstanding to be delivered into the forward contract during the period June to August 2009. These contracts are recorded as a liability at their fair value of \$ 464. Fair value is calculated using the spot price at period end based on the London Bullion Market Association (LBME) p.m.. fix price of \$ 975.50 per ounce, and expected future prices and volatilities.

The Company does not apply hedge accounting which would allow deferring gains and losses on the hedging derivatives to the same period or periods in which the underlying exposure being hedged is brought into account. Instead, the fair value of the hedging derivative is recognized in the measurement of the Company's net income in the period in which the hedge was committed.

- (b) Currency risk: The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to its functional currency, the US dollar. Foreign exchange risks arise from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Cash balances are held principally in US dollars, while its expenses are incurred in Uruguay pesos as well as US dollars and other currencies. The Company reports its results in United States dollars. There would be an adverse impact on the reported results if the following situations arise:

- (i) The Uruguay inflationary impact on the peso expenses increases at more than the depreciation of the Uruguay peso against the US dollar. This would result in an increase of the peso-based expenses.
- (ii) The US dollar depreciates against the Uruguay peso. This would reduce the available cash resources and increase the related expense.

A significant portion of the Company's operations are located in Uruguay, and are subject to fluctuations in exchange rates. The Company manages its currency rate risk by denominating its contracts and commitments, where possible, in US dollars

- (c) Fair value: The Company's financial instruments include cash and cash equivalents, receivables, accounts payable, accrued liabilities and debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.
- (d) Interest rate risk: The majority of the Company's debt is non interest bearing

May 31, 2009 and 2008

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#### 14. Financial Instruments -continued

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- (e) Credit risk: The Company is exposed to credit risk with respect to managing its cash position. This risk, from deposit granting institutions and/or commercial paper issuers, is mitigated by using well capitalized financial institutions. Credit risk relating to accounts receivable arises from the possibility that any counterparty to an instrument may fail to perform. The Company currently transacts with highly-rated counterparties for the sale of gold. Counterparties include its current lenders.
- (f) Capital management: The Company manages its capital to ensure that the Company and its subsidiaries will be able to continue as a going concern while attempting to maximize the return to shareholders through the optimization of a reasonable debt and equity balance commensurate with current operating requirements. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure.
- (g) Insurance
- The Company purchases limited discretionary insurance to cover catastrophic property damage, business interruption and liability risk.
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#### 15. Statement of Cash Flows

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

	<u>2009 (\$)</u>	<u>2008 (\$)</u>
Accounts receivable	(89)	(535)
Prepaid expenses	89	(357)
Inventories	(893)	(8,265)
Accounts payable and accrued liabilities	(1,462)	2,578
	<u>(2,355)</u>	<u>(6,579)</u>

- (b) Supplementary cash flow information:

	<u>2009 (\$)</u>	<u>2008 (\$)</u>
Income tax paid	42	54
Interest paid	103	119

May 31, 2009 and 2008

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**16. Basic and Diluted earnings per share**

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

	<b>2009 (\$)</b>	2008 (\$)
<b>Basic earnings per share</b>		
Numerator		
Net earnings (loss) available to shareholders	(14,355)	7,798
Denominator		
Weighted average shares outstanding	48,671,435	48,911,779
Basic earnings per share (cents per share)	(0.29)	0.16
	<b>2009 (\$)</b>	2008 (\$)
<b>Diluted earnings per share</b>		
Numerator		
Net earnings (loss) available to shareholders	(14,355)	7,798
Denominator		
Weighted average shares outstanding	48,671,435	48,911,779
Potential net incremental issue of shares from warrants	0	0
Potential net incremental issue of shares from stock options	177,368	12,293
Potential net incremental issue of shares from convertible notes	0	0
Shares outstanding plus assumed conversions	48,848,803	48,924,272
Diluted earnings per share (cents per share)	(0.29)	0.16

Basic earnings per common share ("EPS") have been calculated using the weighted-average number of shares outstanding during the year. The calculation of diluted earnings per common share has been computed using the treasury stock method which assumes that options and warrants with an exercise price lower than the average quoted market price were exercised at the beginning of the year, or at time of issue. In applying the treasury stock method, options and warrants with an exercise price greater than the average quoted market price of the common shares are not included in the calculation of diluted earnings per common share as the effect is anti-dilutive. The average quoted market price of the common shares during the year ended May 31, 2009 was CDN\$ 0.84 (2008 - CDN\$3.14).

May 31, 2009 and 2008

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### **17. Restructure plan**

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The Company is implementing a cost reduction program which includes a significant reduction in the number of employees. Under the plan, Uruguayan employees are moved into a Uruguayan State unemployment pension programme. If after six months the employees are not hired back a severance payment under Uruguayan law is owed to the worker. The severance payment could also be paid during the period of six months once the Company considers there is no possibility that an employee will be hired back.

During 2009 the Company implemented a staff reduction plan and the majority of these employees were transferred to the unemployment pension programme as described above. At May 31, 2009, the total remaining severance payments expected to be incurred has been estimated to be \$ 250 (2008 - \$ 0).