

**Management Discussion & Analysis  
for the quarter ended August 31, 2011**

**Prepared as at: 12 October , 2011**

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**Orosur Mining Inc.**  
**Management's Discussion and Analysis**  
**(Unaudited)**

(Thousands of United States Dollars, except where indicated)

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Management's discussion and analysis ("MD&A") provides a discussion of Orosur Mining Inc. ("the Company") financial and operating results for the quarter ended August 31, 2011 with comparisons to previous quarters.

This MD&A accompanies, and should be read in conjunction with, the unaudited condensed interim consolidated financial statements and selected explanatory notes of the Company for the three month period ended August 31, 2011. All amounts are expressed in thousands of US\$, unless otherwise indicated. The reader should also refer to the audited consolidated financial statements for the two years ended May 31 2011 and 2010 and the related Management Discussion and Analysis ("MD&A"), both of which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company's condensed interim consolidated financial statements and the financial data presented in this document have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is effective as of October 11, 2011.

## **1. DESCRIPTION OF BUSINESS**

Orosur Mining Inc is a gold producer and exploration company incorporated in Canada and operating in Uruguay and Chile. The Company's common shares are listed on the Toronto Venture Stock Exchange (symbol OMI) and the London Alternative Investment Market (symbol OMI).

In Uruguay the Company operates the San Gregorio gold operations, the only producing gold mine in the country, in the northern Department of Rivera. It has been exploring in Uruguay since 1996 and acquired the San Gregorio operation in October 2003. During the current financial year, the Company completed a feasibility study to produce gold from a new underground source (Arenal Deeps project) in the San Gregorio district. Following Board of Directors approval, development work started in February 2011 following equipment delivery and final environmental permitting. Ore mining is expected to start in early calendar 2012 and to be carried out concurrently with development. The underground operation is expected to extend mine life at San Gregorio and open the potential for further underground development on existing resources and new discoveries in the rest of the San Gregorio district. The Company also has strategic land holdings throughout Uruguay and has active near mine and regional exploration programmes focused on increasing gold reserves.

In Chile, the Company has optioned the Pantanillo property from Anglo American, located in the Maricunga Belt, and has defined its initial NI 43-101 resource statement, with a medium term objective to develop a second producing asset. The Company also has an active exploration programme on the Anillo property, optioned from CODELCO (Chile's national mining company), and located close to Antofagasta, in Region II, Northern Chile. Additionally, during the quarter, the Company acquired the Talca exploration asset located close to La Serena, north of Santiago in Chile, a property that hosts two gold mines that have been exploited by artisan (non-mechanized) mining.

The Company is focused on growth through its own exploration programs as well as evaluating and acquiring mining assets throughout Latin America that have the potential to deliver resources to the Company to be brought into production in a short to medium term. The Company also develops other available mineral opportunities in its portfolio, other than gold, through joint ventures and farm-out agreements.

## 2. HIGHLIGHTS

Financial highlights for the three-months ended August 31, 2011 include:

- Production for the quarter was 12,488 ounces of gold which is 3.5% lower than last year quarter production of 12,937 ounces. This production level is at the upper end of the Company's expectations of 12,000 to 12,500 ounces for the quarter.
- Cash operating costs per ounce of gold for the quarter were \$ 944 which is in line with expectations. The increased when compared to the prior year cost of \$US 799 per ounce of gold was attributable to lower grade and increased costs due to exchange rate variations and inflation. The grade processed for the quarter was 18% lower than the corresponding quarter of the previous financial year. This was partially offset with a 12% increase in throughput. The realized gold price was \$ 1,612 per ounce for the quarter compared to \$ 1,216 per ounce for the same quarter last year.
- The after-tax profit for the quarter is \$4,412 compared to \$3,526 same quarter in the prior year. Higher prices, despite higher costs explain the improvement.
- Cash flow generated by operations before working capital was \$ 5,572 for the quarter (Q1 10/11 - \$ 5,410). The Company invested \$ 8,911 in capital and \$ 4,316 in exploration for the quarter compared to \$ 994 and \$ 2,255 respectively in Q1 10/11.
- OMI's cash position at the end of the quarter was \$20,286 with net working capital (current assets less current liabilities including cash) of \$29,498.
- Progress has been made at the Arenal Deeps underground mine. The entire new mining fleet has been ordered and most of the key equipment for mine development has been commissioned.
- The Company raised gross proceeds of \$US 13.1 million in June 2011 through a private placement with new and existing shareholders and these will be used to fund the Company's investment in Talca and to target further growth. Investment in Arenal deeps, construction of the new tailings facility and exploration will be funded from cash flow from operations during 2012.
- The Company signed on August 26th, the Definitive Acquisition Agreement for 100 percent interest in the Talca gold property in Chile's Region IV, after obtaining the unanimous acceptance of the Vendors. Talca is a property which was recently under operation, with high grade artisanal production of approximately 300,000oz of gold in the last 40 years.
- The Acquisition of Talca comprises payments of US\$3.84 million over approximately 20 months for a 25%interest with an option to acquire the remaining 75%for US\$3.78 million over a five year period and a 1%net smelter royalty on production. An initial drilling program of approximately 7,500m commenced in early September.

## 3. OUTLOOK AND STRATEGY

- The Company's forecast gold production for the 2011/2012 financial year remains in the range of 57,500 to 60,000 ounces at an operating cash cost per ounce of approximately \$US 810 per ounce.
- Production for the second quarter is expected to be 12,750 to 13,250 ounces. Production is forecast to increase in the second half of the year as Arenal Deeps starts contributing to output and planned additional higher grade ore is accessed from open pit sources. Variations in production and costs between quarters

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will occur as the mine plan draws ore from several pits at different grades and stages of stripping and the company plans to achieve its production and cost targets over the course of the year.

- On progress in Arenal Deeps, the second Jumbo and scoop are clearing customs in Montevideo and are expected to be commissioned this month, while the second truck is expected to be delivered in November 2011. The main ventilation shaft broke through to surface this week and is expected to be operational by the end of November 2011. Also the final permit from DINAMIGE to start exploiting ore is expected to be granted by the end of this month. Production of ore from the room and pillar sections is planned to start on schedule during November 2011. Capital expenditure commitments are in accordance with budgets.
- The Company's medium term objective is to grow its gold production profile in South America. The Company currently has one producing asset, San Gregorio, and it is mining from open pits. Together with the underground operations, which started development in March 2011, the Company maintains the mine life of the Uruguayan assets at five years while reducing cash costs over the life of mine period. On August 2011, the Company acquired Talca, which will add to its development and exploration assets in Chile, Pantanillo and Anillo.

#### 4. OVERVIEW OF FINANCIAL RESULTS

##### 4.1 Profit after taxes

During the quarter, the Company reported a net profit after taxes of \$4,412 or \$0.06 per share, compared to \$3,526 or \$0.05 per share for the first quarter of the previous year. Contribution margin from the San Gregorio operation increased to \$8,007 for the quarter from \$6,329 in the first quarter of previous year. Table 1 opposite shows the profit composition.

The increase in Contribution margin is explained in part by a higher average gold price partially offset by less gold ounces sold and increased operating costs.

<b>Table 1 – Profit composition</b>	<b>Q1 11/12</b>	<b>Q1 10/11</b>	<b>Reference</b>
	<b>\$</b>	<b>\$</b>	
Sales	21,026	18,213	4.2
Operating expenses	(13,019)	(11,884)	4.4
Contribution margin	8,007	6,329	
Amortization	(2,000)	(1,480)	4.5
Operating profit	6,007	4,849	
Derivatives loss	0	(212)	5.4
Exploration expenses	(437)	(317)	5.3
Others	(1,040)	(261)	4.6
Profit before taxes	4,530	4,059	
Income tax	(118)	(533)	
	4,412	3,526	
Basic earnings per share	\$ 0.06	\$ 0.05	

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**4.2 Sales**

Sales include gold and silver sales as shown in Table 2.

Total sales of gold for the quarter were \$ 20,292 with 12,584 ounces of gold sold at an average price of \$ 1,612 per ounce. This compares to \$ 17,905 for the first quarter of the previous year with 14,722 ounces of gold sold at an average price of \$ 1,216 per ounce. A higher average price contributed to the revenue increase partially offset by less ounces sold on a quarter to quarter comparison. Silver sales have also contributed to higher revenues when comparing to previous year, as a result of significantly higher silver production and prices.

**Table 2 - Sales composition**

Q1 – 11/12	\$	Oz	\$ per oz
Gold	20,292	12,584	1,612
Silver	734	18,083	41
<b>Total Sales</b>	<b>21,026</b>		
Q1 – 10/11	\$	Oz	\$ per oz
Gold	17,905	14,722	1,216
Silver	308	15,264	20
<b>Total Sales</b>	<b>18,213</b>		

**4.3 Production statistics**

Key production statistics are shown in Table 3 below. During the quarter 1,892,346 tonnes were mined (Q1 10/11 – 1,921,181 tonnes), including 1,567,794 tonnes of waste (Q1 10/11 – 1,798,196) and 324,552 tonnes of ore (Q1 10/11 – 122,985) with an average grade of 1.04 g/t (Q1 10/11 – 2.06 g/t), to provide a final strip ratio for the quarter of 4.8 tonnes of ore to 1 tone of waste (Q1 10/11 – 14.6). Ore mined is sourced from different veins and pits at a different stripping stage.

During the quarter 414,737 tonnes of ore (Q1 10/11 – 369,175) were fed into the plant at an average grade of 1.01 g/t (Q1 10/11 – 1.18 g/t) to produce 12,488 ounces of gold (Q1 10/11 – 12,937) with a 92.7% of recovery (Q1 10/11 – 92.6%);

**Table 3 – Key production statistics**

		Q1 -11/12	Q1 - 10/11
Waste mined	tons (000's)	1,567	1,798
Ore mined	tons (000's)	325	123
Total mined	tons (000's)	1,892	1,921
Strip ratio	Waste / Ore	4.8	14.6
Grade mined	(g/tons Au)	1.04	2.06
Ore processed	tons (000's)	414	369
Grade processed	(g/tons Au)	1.01	1.18
Recovery	%	92.7	92.6
Gold produced	Ounces	<b>12,488</b>	<b>12,937</b>

Quarterly production statistics are provided in table 4 below.

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**Table 4 - Quarterly production statistics**

	Q2 Nov 09	Q3 Feb 10	Q4 May 10	Q1 Aug 10	Q2 Nov 10	Q3 Feb 11	Q4 May 11	Q1 Aug 11
Ore processed (tonnes)	362,416	389,139	395,726	369,175	373,135	405,407	387,750	414,737
Grade processed (g/t Au)	1.25	1.09	1.39	1.18	1.12	1.38	1.18	1.01
Recovery (%)	93.6	93.5	93.6	92.6	93.3	94.1	93.6	92.7
Gold produced (ounces)	13,580	12,742	16,555	12,937	12,576	16,573	13,731	12,488

**4.4 Production costs**

Total operating costs for the quarter were \$ 13,019 equivalent to cash operating cost per ounce of \$ 944 compared to \$ 11,884 or cash operating cost per ounce of \$ 799 for the corresponding quarter of the previous year. Table 5 provides the reconciliation of operating expenses to cash cost per ounce.

Cash cost per ounce is a non-GAAP measure which is explained in reference 10 of this MD&A document. The Company previously reported only Total Cash Costs. Given that a majority of the companies in the industry report the measure Cash Operating Costs per ounce, the Company deemed it appropriate to report both measures to facilitate comparisons.

<b>Table 5 - Reconciliation of Operating costs to cash cost per ounce</b>	Q1 11/12 \$	Q1 10/11 \$
Operating expenses	13,019	11,884
Movement in non ore inventories	264	(804)
Silver credit	(734)	(308)
Other adjustments	(111)	81
Total cash cost (A)	12,438	10,853
Production taxes	(645)	(515)
Total cash cost before taxes (B)	11,793	10,338
Gold production in ounces (C)	12,488	12,937
<b>Total cash cost per ounce (A)/(C)</b>	<b>996</b>	<b>839</b>
<b>Cash operating cost per ounce (B)/(C)</b>	<b>944</b>	<b>799</b>

The increase in cash costs is mainly a consequence of mining lower grades (1.04 g/t vs 2.06 g/t last year) despite the increased silver revenues. Although the ore processed had a smaller difference in average grade compared to last year (1.01 g/t Au vs 1.18 g/t Au), it is the grade of the ore mined which determines the reduction in cash costs indirectly through a higher value of the stockpile. Costs have increased also mainly based on fuel prices, Uruguayan inflation and exchange rate. The exchange rate had also a negative effect, in average 12% higher (UGP/USD: 18.5 this quarter compared to 20.75 same quarter last year).

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**4.5 Amortization and depreciation**

Amortization and depletion expense was \$ 2,000 for the quarter compared to \$ 1,480 for the corresponding quarter of the previous year. Depreciation includes straight line depreciation of fixed assets, the depreciation of mine properties based on contained ounces of gold in ore mined and the depreciation of the rehabilitation costs estimation. Table 6 provides a breakdown of depreciation.

**Table 6 - Depreciation composition**

	Q1 11/12 \$000's	Q1 10/11 \$000's
Fixed Assets	1,427	1,215
Rehabilitation provision	51	0
Other mine properties	522	265
<b>Total depreciation</b>	<b>2,000</b>	<b>1,480</b>

Depreciation of fixed assets include the depreciation of heavy equipment and major spare parts, plant facilities, tailings dam facilities and other mining site infrastructure. Mine properties depreciation includes pre-stripping activities realized to access ore bodies and capitalized exploration expenditure to discover and outline pit reserves and resources.

Fixed assets depreciation increased on a quarter to quarter basis as a result of the investment made during the last two quarters in equipment for the development of the Arenal Deeps underground operation. Depreciation of fixed assets is expected to increase as more equipment for the Arenal Deeps operation is put in place.

Mine properties depreciation is dependent upon the capitalized costs attributed to pits in production. Mine properties is expected also to increase considerably when Arenal Deeps commences commercial production and all of its associated development costs capitalized start to be depreciated.

**4.6 Corporate expenses and other gains and expenses**

**Table 10 - Corporate expenses and other gains and expenses**

Corporate expenses and other gains and expenses include corporate overhead costs, stock based compensation expense, net interest and bank commissions, foreign exchange gains and losses, sales from assets disposition and other items. A breakdown of such gains and expenses are shown in Table 10.

	Q1 11/12 \$	Q1 10/11 \$
Corporate overheads	1,045	738
Stock based compensation	126	53
Foreign exchange loss (gain)	(43)	(260)
Net interest loss (gain)	21	5
Other gains	(109)	(275)
<b>Total other revenues and costs</b>	<b>1,040</b>	<b>261</b>

Corporate overheads are comprehensive of corporate administration expenses in Canada, Uruguay and Chile, listing and regulatory expenses, holding structure costs, director's fees, executive remuneration and associated costs related to corporate work to develop the business. Executive salaries and benefits related to site work are shown under operating expenses.

Corporate overheads increased compared to last year with the set-up of the new office in Santiago and in general increase of corporate activity.

## 5. FINANCIAL POSITION

### 5.1 Cash and other liquid resources

As at August 31, 2011, OMI had cash resources of \$20,286 compared to \$10,746 as of August 31, 2010 and \$14,178 as of May 31, 2011.

As shown in Table 11, cash increased by \$ 6,108 from \$ 14,178 at the beginning of the quarter to \$ 20,286 by August 31, 2011.

**Table 11 - Cash increase**

	Ref.	Q1 11/12 \$	Q1 10/11 \$
Cash flow from operations before working capital investment		5,572	5,410
Working capital investment	5.2	(1,446)	(103)
Exploration investment	5.3	(4,316)	(2,255)
Site capital expenditure	5.3	(8,911)	(994)
Funding	5.4	15,209	(3)
<b>Cash increase</b>		<b>6,108</b>	<b>2,055</b>

Cashflow from operations includes the results from the San Gregorio operation less the cost of general and administrative expenses, exploration expenditure that cannot be capitalized, interest and income taxes. Investment in working capital relates mainly to cancellation of outstanding commercial liabilities. Cash increased with the private placement of shares and bank external funding. On the other side, the Company financed this quarter the development of the Arenal Deepes underground operation to extend the life of mine and payments for Talca acquisition.

### 5.2 Working capital items

The Company invested a net of \$1,446 in working capital for the first quarter, compared to an investment of \$ 103 for the corresponding quarter of the previous year, resulting in net cash inflows from operations of \$ 4,126 and \$ 5,307 for the quarters of the current and previous year respectively.

During the current quarter the company continued processing stockpiles releasing \$1,418 previously invested in ore to be processed. Supplier's (net of prepayments) cash outflow is related to the timing in the cancellation of salaries, labor benefits and specific commercial liabilities with

**Table 12 - Working capital investment**

	Q1 11/12 \$	Q1 10/11 \$
Cash flow from operations before working capital investment	5,572	5,410
Warehouse inventories	(932)	631
Stockpile	1,418	1,029
Other production inventories	(264)	803
Supplier's net of prepayments	(2,574)	(3,095)
Tax credits and other debtors	906	529
<b>Total working capital investment</b>	<b>(1,446)</b>	<b>(103)</b>
Cashflow from operations after working capital investment	4,126	5,307

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major suppliers. An investment of \$932 in warehouse inventories is associated to consumables and spare parts to be used in the Arenal Deeps underground development. The collection of receivables from the sale of the Company's drill fleet last financial year contributed with a cash inflow during the current quarter.

### 5.3 Capital expenditure

Capital expenditure on property, plant and equipment and mineral properties was \$8,911 for the quarter compared to \$994 for the corresponding quarter of the previous year. The variation is explained by the investment being performed in the development of the Arenal Deeps Underground operation, including development work performed to build the ramp, mobile equipment and general support equipment and infrastructure.

Main investments in the quarter in mobile equipment include a Sandvik TH540 underground dump truck (\$654) and a Sandvik DL310 longhole production drill for the underground operation (\$609). Another \$998 was invested in general infrastructure, auxiliary equipments and surface facilities for the future underground operation, mainly in the electrical power supply and the ventilation system and \$ 3,397 were invested in the development of the ramp, laterals and vertical ventilation raise. The underground operation is expected to start commercial production early calendar 2012. Additionally, another \$ 2,431 was also invested in the construction of the new tailings dam facility to support the new extended life of mine as a result of the underground operation.

Cash exploration expenditure was \$4,316 for the quarter compared to \$2,255 in the corresponding quarter of the previous year. Exploration expenditure for the quarter includes the acquisition of the mining rights in the Talca properties, located 375 kilometres north of Santiago in the IV Region, of northern Chile. Total cash payments for the Talca acquisition in the quarter were \$ 1,230 and in return, the Company has been given the 25% percent of the issued and outstanding shares of Talca. The Company has an irrevocable option to acquire the outstanding 75% of the capital. In addition, the Company also received 100% of the mining rights in the "Vista Hermosa" properties, adjacent to the Talca properties and 25% of Los Cardones, another area adjacent to the Talca properties. The Company has already started an exploration programme in Talca. The rest of the exploration expenditure was done in the Pantanillo and Anillo projects in Chile and in resource definition work to support production in the Isla Cristalina of Uruguay.

Table 13 summarizes expenditure on exploration during the quarter.

During the quarter the Company expensed \$437 (August 2010 - \$317) in exploration expenses to evaluate the acquisition of different mining projects and to maintain certain mining permits for strategically reasons although they do not have a material exploration work associated.

**Table 13 – Exploration investment by area**

Project Area	Uruguay Isla Cristalina	Uruguay Other	Chile	Total
Initial balance May 2011	1,247	5,128	17,513	23,888
Cash expenditure	1,220	173	2,923	4,316
Financed acquisition of Talca	0	0	2,203	2,203
Transfer to mine properties	(831)	0	0	(831)
Final balance August 2011	1,636	5,301	22,639	29,576

#### **5.4 Funding**

On June 2011 the Company completed a private placement of 12,501,100 common shares at a price of 66.0 pence (CDN\$ 1.05) of the Company for gross proceeds of £ 8,250 equivalent to \$13,191 less brokerage commissions and other related issuance expenses for \$730. Proceeds are meant to be used by the Company in the acquisition of the Talca gold property in Chile, Talca exploration and further potential acquisitions and exploration in the Talca district.

During the quarter no employee options were granted, while 125,000 stock options were granted at an exercise price of CAD\$ 0.395 in the corresponding quarter of the previous year. No options were converted into shares. As at August 31, 2011 the Company had 3,517,886 outstanding stock options (August 31, 2010 – 2,874,850 options) at a weighted average exercise price of CDN\$ 1.21 (August 31, 2010 – CDN\$ 2.00), of which 2,106,874 were vested (August 31, 2010 – 1,924,183) at a weighted average exercise price of CDN\$ 1.50 (August 31, 2010 – 2.48).

No dividends were paid during the quarter.

During March 2011 the Company entered into a Line of Credit Facility with HSBC Bank (Uruguay) S.A. for \$5,500. During the quarter the Company applied the line for a total amount of \$3,710 to finance the purchase of mobile equipment for the Arenal Deeps Underground operation. The company can withdraw the outstanding facility up until March 15, 2012. The amounts withdrawn are secured by a pledge on the equipment. Amounts drawn bear an interest of LIBOR plus 3.25% with a minimum 4.50% rate payable by semester. Capital is due in four bi-annual installments, the first one due March 15, 2013.

During the quarter the Company also signed a lease contract with Santander (Uruguay) S.A. for the purchase of a Scania truck for an amount of \$ 136 payable in 36 monthly installments bearing interest at a 4.5% rate.

On July 2011, the Company loaned to an unrelated exploration company incorporated in England and Wales, a \$1,000 loan facility in connection with a potential project. The loan has been secured in a debenture and bears interest at the rate of 6% per annum to be capitalized on a monthly basis and shall be payable by July 2012.

#### **5.5 Financial instruments**

The Company does not enter into financial instruments for trading or speculative purposes. The level of derivatives contracts done in the past has been consistent with forecasted production. As of August 31, 2011 the Company had no outstanding derivatives.

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**5.6 Contractual obligations and commitments**

The Company's contractual obligations and commitments are as follows

	<b>Total</b>	<b>Less than 1 Year</b>	<b>2 Years</b>	<b>3 years</b>	<b>More than 3 years</b>
Leasing	139	45	45	49	0
HSBC Credit facility	3,710	0	927	1,856	927
Talca Deferred payments	2,202	1,827	375	0	0
Rehabilitation provision	3,278	864	810	134	1,470
Total	9,329	2,736	2,157	2,039	2,397

Commitments derived from exploration farm-outs and acquisition agreements are disclosed in Note 6 of our Financial Statements for the year ended May 31, 2011 with the updates in note 8 of the interim financial statements for the current quarter.

Bank facilities details are disclosed in Note 11 of the interim financial statements and in reference 5.4 of this MD&A document.

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 HSBC Bank Uruguay local branch.

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**6. QUARTERLY RESULTS**

	Qtr 2 Nov 2009	Qtr 3 Feb 2010	Qtr 4 May 2010	Qtr 1 Aug 2010	Qtr 2 Nov 2010	Qtr 3 Feb 2011	Qtr 4 May 2011	Qtr 1 Aug 2011
Gold sold (ounces)	13,678	11,662	16,376	14,722	11,853	15,300	14,875	12,584
Average sales price (\$/oz)	1,065	1,110	1,157	1,216	1,332	1,368	1,466	1,612
Cash operating cost (\$/oz)	857	939	579	799	777	483	893	944
Total cash cost (\$/oz)	871	984	629	839	790	521	924	996
Operating revenues	14,811	13,152	19,152	18,213	16,584	21,618	22,319	21,026
Operating expenses	(12,355)	(12,173)	(10,560)	(11,884)	(9,897)	(9,294)	(12,875)	(13,019)
Contribution Margin	2,456	979	8,592	6,329	6,687	12,324	9,444	8,007
Administration expenses	(1,074)	(1,003)	(1,085)	(790)	(1,388)	(1,113)	(1,305)	(1,171)
Amortization	(3,044)	(2,228)	(1,697)	(1,480)	(2,135)	(2,016)	(2,588)	(2,000)
Derivatives gain (loss)	0	0	(109)	(212)	0	0	0	0
Exploration write off and exploration expenses	(371)	(11)	(232)	(317)	0	(2,563)	(4,813)	(437)
Net interest and accretion of retirement obligation	(76)	(43)	(59)	(6)	(5)	(57)	(144)	(21)
Foreign exchange gain (loss)	6	(73)	(32)	260	(109)	(28)	(125)	43
Other income	1,199	33	136	275	131	1,633	265	109
Income Tax	1,580	(574)	289	(533)	(398)	(1,838)	2,713	(118)
Net income (loss) for the period	676	(2,920)	5,803	3,526	2,783	6,342	3,447	4,412
Basic earnings per share	0.014	(0.05)	0.09	0.05	0.04	0.10	0.05	0.06
Cash flow from operations	2,125	1,108	5,783	5,307	6,526	8,261	11,254	4,126
Cash from (used for) financing	(9)	34	76	(3)	121	92	7	15,209
Cash invested	(883)	(3,383)	(4,285)	(3,249)	(3,454)	(6,961)	(12,414)	(13,227)
Cash on hand	9,391	7,150	8,691	10,746	13,939	15,331	14,178	20,286
Total Assets	65,044	70,857	78,331	76,990	81,211	90,681	94,273	114,654
Shareholders Equity	51,371	56,176	62,060	65,049	68,272	74,851	78,423	95,337

## **7. RISKS AND UNCERTAINTIES**

The Company's net earnings in the near-term are affected principally by its mining operations and, in the longer term, will be affected primarily by the success or failure of its exploration and development activities. The Board recognizes that the exploration and development of natural resources is a speculative activity that involves a large numbers of uncertainties, and a degree of financial risk. Accordingly the Board considers the risks to which the Corporation is exposed as part of its regular operations, and keeps these under review.

The principal risks are considered to be those set out below.

### **Sensitivity to commodity prices and foreign exchange rates**

The Company's revenues, net earnings and cash flow from operations are affected materially by changes in the price of gold. Gold has historically been subject to large price fluctuations, and is affected by factors which are unpredictable, including international economic and political conditions, speculative activities, the relative exchange rate of the US dollar with other currencies, inflation, global and regional levels of supply and demand and the gold inventory levels maintained by producers and others.

The Company's gold sales are priced in US dollars while its operating costs are predominantly incurred in US dollars, Canadian dollars, and Chilean and Uruguayan pesos. The Company has financial exposure to foreign exchange fluctuations in the Uruguayan and Chilean peso and the Canadian dollar relative to the US dollar.

### **Key Personnel Risks**

Recruiting and retaining qualified personnel is critical to the Company's success. The number of skilled mining and exploration professionals in Uruguay is limited and competition for such persons is intense in the global mining industry. As the Company's business activity continues to grow, it will be required to hire additional personnel and retain the services of key personnel. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

### **Exploration, Mining and Operational Risks**

The Company's longer term strategy depends to a certain extent on its ability to find commercial quantities of minerals within Uruguay, and to obtain and retain appropriate access to these minerals. The Board cannot guarantee that it will be able to identify appropriate properties, or negotiate acquisitions, on favorable terms.

The Company's currently has one producing asset, the San Gregorio project. As more of its projects mature, the Board expects that more projects will develop into producing assets. In common with all mining operations, there is uncertainty, and therefore risk, associated with operating parameters and costs. Whilst costs can be budgeted with a reasonable degree of confidence, operating parameters can be difficult to predict and are often affected by factors outside the Group's control. In addition, other risks, including cuts in electricity supply, fuel supply shortages, industrial accidents, technical failures, labour disputes and environmental hazards are also beyond the Group's control.

The nature of resource and reserve quantification studies means that there can be no guarantee that estimates of quantities and grades of minerals will be available to extract. The figures for reserves and resources estimates are determined in accordance with National Instrument 43-101, issued by the Canadian Securities Administrators. This National Instrument lays out the standards of disclosure for mineral projects including rules relating to the determination of mineral reserves and resources

The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate or adequately mitigate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. There is no assurance that commercial quantities of ore will be discovered on any of UME's exploration properties. There is no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. In addition, assuming discovery of a commercial ore-body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced

The Company's business activities are also affected to varying degrees by government regulations respecting, among other things, tax, royalties, utilities service supply, mining legislation and environmental legislation changes.

### **Title Risks**

Individual titles expire from time to time and the Company manages the process of retaining its rights by re-application or conversion to other forms of title relevant to each stage of development. The process of re-application involves some risk however, as released titles must fall open before they can be re-applied for.

There can be no guarantee that the State in the jurisdictions in which the Company operates will continue to grant or respect mining titles, and that the titles of the properties will not be challenged or negated for political or legal reasons.

### **Political and Economic Risks**

Political conditions in the countries where the Company operates are stable. Changes may however occur in political, fiscal and legal system that might affect the ownership or operation of the Group's interests, including inter alia, changes in exchange control regulations, expropriation of mining rights, changes of government and in legislative and regulatory regimes.

## **8. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may vary from related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

### **Economic lives of mining assets and recoverable value**

The economic lives of the Company's mining operation and development assets is based upon the individual mine's mineral reserves. The Company's resources and reserves are calculated in accordance with mining standards and in compliance with NI 43-101 requirements. The Company reviews and re-evaluates the estimated future discounted net cash flows of its mines and development properties on a regular basis, to ensure that they exceed the carrying value for each property. These calculations rely on estimated reserves and/or resources, estimated future commodity price and production cost.

### **Inventory**

The value assigned to ore stockpiles, in process inventories and finished metal inventories are based on estimated volumes and grades. Volume and grade estimates are made relying on assays and other sampling tests.

### **Rehabilitation provisions**

The fair value of the liability is determined based on the net present value of estimated future costs estimated by management based on feasibility and engineering studies on a site by site basis. While care was taken to estimate the retirement obligations, these amounts are estimates of expenditures that are not due until future years;

### **Share based compensation**

The Company has chosen to use the fair value method to account for stock-based employee compensation plans. The calculation of this benefit relies on estimates of the anticipated life of the option and the volatility of the company's share price;

### **Net deferred income tax assets and liabilities**

Significant judgment is required in determining the worldwide provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences may impact the carrying amount of deferred income taxes;

### **Exploration and evaluation expenditure**

The recoverability of amounts shown for capitalized exploration and evaluation expenditure is dependant upon the discovery of economically recoverable reserves.

## **9. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Corporation's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, our Continuous Disclosure Policy Procedure, our Code of Business Conduct and Ethics, our Insider Trading Policy and Share Trading Code and Price Sensitive Information Policy, our Whistleblower Policy, Release of Public Information Policy and the effective functioning of the Audit Committee and Board of Directors.

As at the end of the period covered by this MD&A, management of the Corporation, with the participation of the President and CEO and the CFO, does not expect that the Corporation's Disclosure Controls will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud and error, if any, within the Corporation have been detected.

As at the end of the period covered by this MD&A, management of the Corporation, with the participation of the CEO and the CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the Corporation's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the President and CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

### **Internal Controls over Financial Reporting**

Multilateral Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined therein, for the Corporation, that the ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP, and that the Corporation has disclosed any changes in its ICFR during its most recent interim period that has materially affected, or is reasonably likely to materially affect its financial reporting.

As discussed above, the inherent limitations in all controls systems are such that they can provide only reasonable, not absolute, assurance that all controls issues and instances of fraud or error, if any, within the Corporation have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

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During the period covered by this MD&A, the Corporation's senior management, including CEO and CFO, evaluated the existence and design of the Corporation's ICFR and confirm there were no changes to the ICFR that have occurred during the quarter which materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

## **10. NON GAAP MEASURES**

Cash flow from operations, contribution margin and cash cost per ounce are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non GAAP measures. Therefore these measures may not be comparable to similar measures presented by other issuers. These measures have been presented in this MD&A as additional information regarding the Company's financial performance and financial position. Cash flow from operations is calculated by adding back non-cash items to net earnings. Contribution margin has been calculated by deducting operating expenses from sales. Operating expenses include movements in inventories but exclude operating amortization and depletion. Cash cost per ounce are determined according to the Gold Institute Standard and consist of site costs for all mining, processing, administration, royalties, refining charges, silver credits and inventory adjustments relating to metal production. Capital expenditure, depletion and amortization, corporate costs and financing costs are not included. Cash costs are total cash costs divided by gold ounces produced.

## **11. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Company's commenced reporting on an IFRS basis in this quarter as this will be the Company's first IFRS annual audited financial statements issued for the financial year to end May 31, 2012. Previously, the Company prepared its interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA handbook").

Refer to Note 1 and 19 of the interim financial statements for the quarter ended August 31, 2011 for more information.

### **Recent accounting pronouncements**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

#### **IFRS 9 Financial Instruments: Classification and Measurement**

In November 2009, the IASB issued IFRS 9, which covers classification and measurement as the first part of its project to replace IAS 39. In October 2010, the Board also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as carryover of requirements from IAS 39. The Company does not anticipate early adoption and will adopt the standard on the effective date of January 1, 2013. The Company has not determined the impact of the new standard on the consolidated financial statements.

#### IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements will replace portions of IAS 27 Consolidated and Separate Financial Statements and interpretation SIC-12 Consolidation – Special Purpose Entities. The key features of IFRS 10 include consolidation using a single control model, definition of control, considerations on power, and continuous reassessment. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

#### IFRS 11 Joint Arrangements

IFRS 11 Joint Arrangements will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation would be removed, equity accounting would be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

#### IFRS 12 Disclosure of Interests in Other Entities

The IASB has issued IFRS 12 Disclosure of Involvement with Other Entities, which includes disclosure requirements about

subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure

requirements. This standard is effective for annual periods beginning on or after January 1, 2013. Entities will be permitted to apply any of the disclosure requirements in IFRS 12 before the effective date. The Company has not determined the impact of the new standard on the consolidated financial statements.

#### IFRS 13 Fair Value Measurement

IFRS 13 will generally converge the IFRS and US GAAP requirements for how to measure fair value and the related disclosures. IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. The key features of IFRS 13 include: a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied, fair value would be defined as the 'exit price', and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

#### IAS 27 Separate Financial Statements

As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when

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an entity prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company does not believe IAS 27 will have a material impact on the Company's consolidated financial statements.

#### IAS 28 Investments in Associates and Joint Ventures

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

## **12. FORWARD LOOKING STATEMENTS**

Certain information contained in this Management Discussion and Analysis constitutes "forward- looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and forward looking information under applicable Canadian Securities Legislation. Such forward-looking statements or information, included but not limited to those with respect to prices for gold, estimated future production, estimated costs of production, the Company's hedging policy involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements or information. Important factors that could cause actual results to differ materially from those in the forward looking statements contained herein include among others, gold price, weather, exploration results, development and mining activities, geotechnical assumptions, environmental approvals and the availability of technical personnel.