

Uruguay Mineral Exploration Inc.
Consolidated Interim Financial Statements
For the nine month period ended
February 28, 2006
(Unaudited)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended February 28 2006.

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Uruguay Mineral Exploration Inc.
Consolidated Balance Sheets
(Unaudited)

(Thousands of United States Dollars, except where indicated)

	As at February 28 2006	As at May 31 2005	As at February 28 2005
	\$	\$	\$
Assets			
Current			
Cash and cash equivalents	3,590	5,501	2,898
Accounts receivable	2,814	1,785	2,666
Inventories	7,792	7,170	6,016
Prepaid expenses and other	647	722	864
	<u>14,843</u>	<u>15,178</u>	<u>12,444</u>
Property, plant and equipment (Note 2)	24,788	19,675	19,962
Deferred exploration costs (Note 3)	8,308	5,088	4,537
Future income tax	959	1,787	-
Deferred stripping and other non current assets (Note 4)	3,065	923	807
	<u>51,963</u>	<u>42,651</u>	<u>37,750</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	3,754	4,945	4,425
Debt (Note 5)	2,190	4,256	8,627
Unrealized fair value of derivatives (Note 10)	2,529	180	823
	<u>8,473</u>	<u>9,381</u>	<u>13,875</u>
Asset retirement obligation	1,624	1,558	1,394
Debt (Note 5)	1,818	391	-
Total liabilities	<u>11,915</u>	<u>11,330</u>	<u>15,269</u>
Share capital (Note 6)	31,125	29,383	22,644
Warrants (Note 6)	550	188	607
Contributed surplus (Note 7)	1,694	1,577	1,636
Cumulative translation adjustment	(19)	(19)	(19)
Retained Earnings / (Deficit)	6,698	192	(2,387)
Total Shareholders' Equity	<u>40,048</u>	<u>31,321</u>	<u>22,481</u>
Total Liabilities and Shareholders Equity	<u>51,963</u>	<u>42,651</u>	<u>37,750</u>
Commitments and contingencies (Note 11)			

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

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

(Thousands of United States Dollars, except where indicated)

	Three months ended February 28		Nine months ended February 28	
	2006	2005	2006	2005
	\$	\$	\$	\$
Sales	12,167	7,874	35,214	20,279
Net profit interest	-	-	(635)	-
Net Sales	12,167	7,874	34,579	20,279
Operating expenses	5,289	4,767	16,019	14,766
Amortisation, depletion and accretion	2,181	1,293	6,497	2,230
Other expenses				
Stock based compensation expense	176	-	334	756
Fair value adjustment for derivatives	937	(831)	2,349	823
General and administrative	705	1,348	1,952	2,390
Interest and financing fees	137	99	311	366
	1,955	616	4,946	4,335
Income (loss) before other items and taxes	2,742	1,198	7,117	(1,052)
Other items				
Gain on settlement of net profit interest	-	-	888	-
Interest and other income	138	3	40	(2)
Foreign exchange gain / (loss)	(133)	8	(179)	(15)
Income (loss) before taxes	2,747	1,209	7,866	(1,069)
Income taxes	425	-	1,360	-
Net income (loss) for the period	2,322	1,209	6,506	(1,069)
Retained earnings (deficit), beginning of period	4,376	(3,596)	192	(1,318)
Retained earnings (deficit), end of period	6,698	(2,387)	6,698	(2,387)
Basic earnings (loss) per share	0.050	0.022	0.14	(0.031)
Diluted earnings (loss) per share	0.046	0.020	0.13	(0.031)
Basic weighted average no. of shares	46,708,080	43,762,246	46,387,746	43,280,357

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Uruguay Mineral Exploration Inc.
Consolidated Statements of Cashflows
(Unaudited)

(Thousands of United States Dollars, except where indicated)

	Three months ended February 28		Nine months ended February 28	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating activities				
Net income/(loss) for the period	2,322	1,209	6,506	(1,069)
Adjustments for:				
Amortization, depletion and accretion	2,181	1,293	6,497	2,230
Future income taxes	(319)	-	86	-
Deferred stripping	(803)	(328)	(2,244)	(467)
Fair value adjustment of derivatives	937	(831)	2,349	823
Compensation expense – stock based	176	-	334	755
Loss on sales of assets	-	-	114	-
Other	1	-	60	188
	4,495	1,343	13,702	2,460
Net change in non-cash working capital balances (Note 9(a))	(896)	(1,659)	(2,789)	(2,509)
	3,599	(316)	10,913	(49)
Financing activities				
Proceeds from the issue of share capital, net of costs	224	1,991	428	2,246
Deferred subscriptions	-	(125)	-	-
Proceeds from bank debt, net of costs	-	853	-	3,780
	224	2,719	428	6,026
Investing activities				
Refundable deposits	3	31	-	(11)
Purchase of property, plant and equipment	(5,176)	(2,205)	(11,428)	(5,967)
Payments for exploration	(1,347)	(165)	(2,474)	(1,422)
Proceeds on sale of assets	-	-	650	-
Payments on subsidiaries acquired, net of cash acquired	-	(150)	-	(650)
	(6,520)	(2,489)	(13,252)	(8,050)
Increase (decrease) in cash	(2,697)	(86)	(1,911)	(2,073)
Cash and cash equivalents, beginning of period	6,287	2,984	5,501	4,971
Cash and cash equivalents, end of period	3,590	2,898	3,590	2,898

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

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

(Thousands of United States Dollars, except where indicated)

1. Significant Accounting Policies

The unaudited interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The reporting currency used is the United States dollars which is also the Company's functional currency. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been adjusted to reflect all adjustments required to reflect a fair presentation of these statements in accordance with the accounting policies of the company. These interim consolidated financial statements should be read in conjunction with the most recent annual consolidated financial statements for the year ended May 31, 2005 for detailed note disclosures. The significant accounting policies follow that of the most recently reported annual consolidated financial statements.

2. Property, Plant and Equipment

February 28 2006

	Cost	Accumulated Amortization	Net Book Value
Land and lease rights	\$ 671	\$ -	\$ 671
Plant and equipment	20,605	6,368	14,237
Mineral properties	14,066	4,186	9,880
	<u>\$ 35,342</u>	<u>\$ 10,554</u>	<u>\$ 24,788</u>

May 31 2005

	Cost	Accumulated Amortization	Net Book Value
Land and lease rights	\$ 671	\$ -	\$ 671
Plant and equipment	14,234	2,780	11,454
Mineral properties	8,995	1,445	7,550
	<u>\$ 23,900</u>	<u>\$ 4,225</u>	<u>\$ 19,675</u>

February 28 2005

	Cost	Accumulated Amortization	Net Book Value
Land and lease rights	\$ 689	\$ -	\$ 689
Plant and equipment	14,178	1,993	12,185
Mineral properties	7,983	895	7,088
	<u>\$ 22,850</u>	<u>\$ 2,888</u>	<u>\$ 19,962</u>

2. Property, Plant and Equipment - cont

- a) On November 30, 2005 a subsidiary of the Company acquired the 10% net profits interest over key tenements within the Minas de Corrales Project including the tenements on which the Arenal deposit is located. The total cost of the acquisition was \$ 4,246 with \$ 3,500 allocated to mineral properties and \$ 746 allocated to deferred exploration and development costs. The consideration for the acquisition was 290,000 common shares and \$ 3,150 payable in 3 equal annual installments of \$ 1,050. Terms of the notes are detailed at Note 5(d). An additional \$ 1,050 is payable to the vendor if the average daily gold price for the 36 months to 30 June 2008 exceeds \$400 per ounce.
- b) The Arenal project reached commercial production on October 1, 2005. Accumulated deferred exploration and development costs of \$ 6,551 relating to the Minas de Corrales project were capitalized and are being amortized on units of production basis.
- c) The plant is located on leased land. The lease expires in 2026. No further payments are due on the lease. Included in plant and equipment is \$ 220 (2005 - \$ 288) of spare parts that are amortized over 5 years. Included in mineral properties is \$ 2,411 (2005 - \$ 982) of mine development costs.

3. Deferred Exploration and Development Costs

	February 28 2006	May 31 2005	February 28 2005
Acquisition costs and option payments	\$ 1,521	\$ 775	\$ 650
Exploration, development and other property costs	5,311	2,972	2,339
Capitalized indirect overheads, net of exchange gains	1,476	1,341	1,548
	<u>\$ 8,308</u>	<u>\$ 5,088</u>	<u>\$ 4,537</u>

- a) The Uruguay Mining legislation requires all mining titles to be supported by guarantees for any environmental rehabilitation requirements resulting from exploration or mining activities. These guarantees are required to be posted by non-title holders. As a result, certain of the Company's employees, officers and directors have provided personal assets as guarantees. The Company intends to compensate these individuals in the event that the guarantee is called. The Company has also agreed to pay a guarantee fee to the individuals at rates advantageous to the Company. This fee is based on the amount of the guarantee and is negotiated on a case-by-case basis. The total guarantees provided at February 28, 2006 were approximately \$ 922. These relate to potential site restoration responsibilities associated with exploration activities. In addition, as a consequence of the acquisition of the San Gregorio mine, the Company has assumed full responsibility for the rehabilitation of the mining site. This obligation is supported by a rehabilitation guarantee of \$1,500.

Uruguay Mineral Exploration Inc.
Notes to Consolidated Interim Financial Statements
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4. Deferred Stripping and Other Non Current Assets

	February 28 2006	May 31 2005	February 28 2005
Refundable deposits	\$ 140	\$ 140	\$ 136
Capitalized debt issue costs	113	215	204
Deferred Stripping	2,812	568	467
	\$ 3,065	\$ 923	\$ 807

Costs and fees relating to the secured financing facility have been capitalized and will be amortized over the life of the facilities, commencing December 1, 2004. The actual strip ratio during 2006 is 6.5 compared to a reserve rate of 4.34.

5. Long Term Debt

	February 28 2006	May 31 2005	February 28 2005
Drawn debt facilities			
Working capital facility (a)	\$ -	\$ -	\$ 4,000
Deferred payment on equipment (b)(c)	1,161	4,647	4,627
Deferred payment on acquisition (d)	2,847	-	-
	4,008	4,647	8,627
Less current portion	2,190	4,256	8,627
	\$ 1,818	\$ 391	\$ -
Available debt facilities			
Working capital facility (a)	\$ 2,000	\$ 2,150	\$ 4,650
Deferred payment on equipment (b)(c)	1,161	4,647	4,627
	\$ 3,161	\$ 6,797	\$ 9,277

(a) On December 8, 2004 the Company signed documentation for a secured financing facility of \$6,500 replacing the interim working capital facility with Macquarie Bank Limited. This facility will provide \$1,500 for environmental bonds and \$5,000 for working capital needs. The facility will bear interest at a rate of Libor plus 2% and is secured by a general floating charge over all of the Company's assets. On 30 November 2005 the Company amended the secured financing facility to extend the working capital facility in the amount of \$2,000 until 30 September 2006. The facility is not drawn at February 28, 2006.

(b) On August 5, 2004, Loryser S.A. signed a sale and purchase agreement for the purchase of \$6,349 in mine equipment. The equipment is being purchased on deferred payment terms with an initial payment of 25%, twelve monthly installments equal to 15% and a final balloon payment of 60% 12 months from the date that equipment is assembled and ready to work. Interest on all balances outstanding accrues at the 90 day Libor rates plus 4%. Additional amounts relating to assembly and freight included in deferred payments on equipment will be paid following the final commissioning of the equipment. As at February 28, 2006 this obligation has been settled.

5. Long Term Debt - cont

- (c) On June 15, 2005 a subsidiary of the Company signed an amendment to the August 5, 2004 sale and purchase agreement to purchase an additional \$1,352 in mine equipment from Komatsu Latin America Corporation. This equipment is being purchased on deferred payment terms with an initial payment of 25%, twelve monthly installments equal to 15% and a final balloon payment of 60% 12 months from the date that equipment is assembled and ready to work. Interest on all balances outstanding accrues at the 90 day Libor rates plus 4%. Additional amounts relating to assembly and freight included in deferred payments on equipment will be paid following the final commissioning of the equipment.
- (d) On November 30, 2005 a subsidiary of the Company issued three unsecured convertible notes with a face value of \$ 1,050 pursuant to the acquisition detailed at note 2(a). The three convertible notes are payable on or before July 30, 2006, July 30, 2007 and July 30, 2008 respectively. Each convertible note can be converted into 250,000 ordinary shares during a 30 day period prior to the final payment date for each installment. No interest accrues on the notes. The convertible notes have been recognized at their fair value using a 8% discount rate to give a liability of \$2,847 at February 28, 2006.

6. Equity Instruments

- (a) Authorized
Unlimited number of Common Shares

- (b) Issued

Common shares	February 28, 2006		May 31, 2005	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	46,107	\$ 30,308	42,865	\$ 21,194
Issued for stock options exercised	369	646	612	600
Issued for acquisition of NPI (Note 6(d))	290	1,096	-	-
Issued for exercise of warrants for cash	-	-	2,630	8,514
Issued and Outstanding	46,766	32,050	46,107	30,308
Less: cumulative share issue costs ⁽¹⁾		(925)		(925)
Issued and outstanding, end of year	46,766	\$ 31,125	46,107	\$ 29,383

Warrants and convertible notes	February 28, 2006		May 31, 2005	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	250	\$ 188	2,630	\$ 548
Issued for finance fee	-	-	250	188
Issued for acquisition of NPI (note 6d)	750	362		
Exercised	-	-	(2,630)	(548)
Issued and outstanding, end of year	1,000	\$ 550	250	\$ 188

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

6. Equity Instruments – cont'd

(c) Warrants and Convertible Notes

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

The convertible notes expire as follows:

Ordinary shares to be issued on conversion of promissory note	Option Price US \$	Expiry Date
250,000	4.20	July 30, 2006
250,000	4.20	July 30, 2007
250,000	4.20	July 30, 2008

During August 2004, the Company issued 250,000 warrants at an exercise price of \$3.75 per share in satisfaction of a financing fee on the facilities detailed at Note 5 (a). The fair value of these options were estimated using the Black and Scholes option pricing model with the following assumptions: Dividend yield (nil), Expected volatility 40%, risk free rate (3%) and a weighed average life of 2 years. As such a value of \$US188,146 was attributed to these warrants.

At February 28, 2006, the Company has 250,000 (May 31, 2005 – 250,000) warrants outstanding. During the period, the Company issued nill (2005 - 250,000) warrants. The outstanding warrants are exercisable as follows:

Number of Warrants	Option Price CDN \$	Expiry Date
250,000	3.75	August 8, 2006

(d) Employee Stock Options

Effective June 1, 2004 the Company adopted the recommendations of the CICA Handbook with respect to stock-based compensation and commenced to expense stock options granted from June 1, 2004 using the fair value method. Previously, no value was assigned to stock options or warrants issued in exchange for employee, directors and officers services.

The Company has a director and employee stock option plan under which it may grant options to its directors, officers, employees and consultants of the Company and its subsidiaries. The employee option Plan is for officers, directors and employees of the Company. 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.

6. Equity Instruments – cont'd

For the purposes of stock based compensation, the fair value of each option was determined on the date of granting using the Black-Scholes option pricing model with the following assumptions: Dividend yield (Nil) (2005 - Nil), expected volatility (50%) (2005 - range of 40% to 50%), risk-free interest rate (3.5%) (2005 – 3%), and weighted average life of 4.0 years (2005 – 4.0 years).

The following table summarizes information regarding the Company's outstanding options as at February 28, 2006:

	Three months ended		Nine months ended	
	Number of Shares (000,s)	Weighted Average Exercise Price CDN \$	Number of Shares (000,s)	Weighted Average Exercise Price CDN \$
Balance – beginning of period	3,326	2.58	2,769	2.02
Options – granted	68	4.62	831	4.51
Options – exercised	(179)	1.41	(369)	1.46
Options – expired/forfeited	-	-	(16)	3.00
Balance – end of period	3,215	2.68	3,215	2.68

The following table summarizes information about the stock options outstanding to the officers, directors and staff at February 28, 2006:

Outstanding				Exercisable	
Options (000,s)	Option price CDN \$	Weighted Average Exercise Price CDN \$	Remaining Life Years	Options (000,s)	Weighted Average Exercise Price CDN \$
315	\$ 0.40	\$ 0.40	.9	315	\$ 0.40
235	\$ 0.75	\$ 0.75	2.1	235	\$ 0.75
150	\$ 1.00	\$ 1.00	1.6	150	\$ 1.00
915	\$ 1.50	\$ 1.50	2.5	915	\$ 1.50
259	\$ 3.00	\$ 3.00	3.3	259	\$ 3.00
60	\$ 3.40	\$ 3.40	3.3	60	\$ 3.40
250	\$ 4.00	\$ 4.00	3.2	250	\$ 4.00
763	\$ 4.50	\$ 4.50	4.6	0	\$ 4.50
200	\$ 5.40	\$ 5.40	3.7	200	\$ 5.40
68	\$ 4.62	\$ 4.62	4.8	0	\$ 4.62
3,215				2,384	

The remaining fair value of employee stock options to be expensed is \$924 (2005 – nil).

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Notes to Consolidated Interim Financial Statements
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7. Contributed Surplus

The following table summarizes the movements in contributed surplus.

	February 28 2006	May 31 2005	February 28 2005
Balance, beginning of period	\$ 1,577	\$ 881	\$ 881
Expense for the period	334	756	755
Transfer on exercise of options	(217)	(60)	-
	<u>\$ 1,694</u>	<u>\$ 1,577</u>	<u>\$ 1,636</u>

8. Segmented Information

The Company has three reportable segments: Gold, exploration and corporate. The corporate segment is responsible for corporate financing and other business development activities for the Company. The Gold segment operates the San Gregorio Gold Project and the exploration segment is devoted to the acquisition and exploration of mineral properties. The gold and exploration segments operate solely in Uruguay. Precious metals are refined and sold in Europe.

	February 28 2006			
	Gold	Exploration	Corporate	Total
For the 3 months ending				
Sales	\$ 12,167	\$ -	\$ -	\$ 12,167
Amortization and depreciation	\$ 2,174	\$ 7	\$ -	\$ 2,181
Net income (loss)	\$ 2,789	\$ -	\$ (467)	\$ 2,322
For the 9 months ending				
Sales	\$ 35,214	\$ -	\$ -	\$ 35,214
Amortization and depreciation	\$ 6,477	\$ 20	\$ -	\$ 6,497
Net income (loss)	\$ 8,020	\$ (474)	\$ (1,040)	\$ 6,506
As at February 28				
Property, plant and equipment	\$ 24,621	\$ 157	\$ 10	\$ 24,788
Deferred exploration	\$ -	\$ 8,308	\$ -	\$ 8,308
Total assets	\$ 39,941	\$ 9,097	\$ 2,925	\$ 51,963

Uruguay Mineral Exploration Inc.
Notes to Consolidated Interim Financial Statements
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8. Segmented Information - cont

	February 28 2005				Total
	Gold	Exploration	Corporate		
For the 3 months ending					
Sales	\$ 7,874	\$ -	\$ -		\$ 7,874
Amortization and depreciation	\$ 1,277	\$ 16	\$ -		\$ 1,293
Net income (loss)	\$ 2,216	\$ (189)	\$ (818)		\$ 1,209
For the 9 months ending					
Sales	\$ 20,279	\$ -	\$ -		\$ 20,279
Amortization and depreciation	\$ 2,289	\$ 41	\$ -		\$ 2,230
Net income (loss)	\$ 892	\$ (399)	\$ (1,562)		\$ (1,069)
As at February 28					
Property, plant and equipment	\$ 19,787	\$ 165	\$ 10		\$ 19,962
Deferred exploration	\$ -	\$ 4,537	\$ -		\$ 4,537
Total assets	\$ 29,300	\$ 4,795	\$ 3,655		\$ 37,750

9. Supplementary cash flow information

	Three months ended		Nine months ended	
	February 28		February 28	
	2006	2005	2006	2005
Net change in non-cash working capital				
Prepaid expenses and other	\$ 176	\$ 42	\$ 75	\$ (196)
Accounts receivable	316	(859)	(287)	(1,172)
Accounts payable and accrued liabilities	(957)	402	(1,191)	805
Inventory	(431)	(1,244)	(1,386)	(1,946)
	<u>\$ (896)</u>	<u>\$ (1,659)</u>	<u>\$ (2,789)</u>	<u>\$ (2,509)</u>
Other information				
Cash interest paid	\$ 79	\$ 99	\$ 253	\$ (178)
Cash taxes paid	-	-	-	-

10. Financial Derivatives

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

The Company uses financial derivatives to mitigate the effect of certain risks that are inherent in its business. As at February 28, 2006 the Company had entered into a number of financial derivatives to reduce its exposure to fluctuations in the gold price. These instruments consist of gold option contracts. The company intends to deliver into these contracts as they fall due.

10. Financial Derivatives - cont

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

	February 28 2006	May 31 2005	February 28 2005
Gold put options	5	165	-
Gold call options	(2,219)	(345)	(823)
Gold spot deferred contract	(315)	-	-
	(2,529)	(180)	\$ (823)

The Company has entered into put option contracts on 10,000 ounces at a forward price of \$US 400 per ounce and a further 10,000 ounces at a forward price of \$US 430 per ounce. To cover the cost of these put option contracts the company has sold call option contracts on 10,000 ounces at a forward price of \$US 436 per ounce and a further 10,000 ounces at a forward price of \$US 486.5 per ounce. The put and call options are matched in timing and will be delivered into on a monthly basis at a rate of 2,500 ounces per month. The lower value put and call options are delivered first.

11. Commitments and Contingencies

In addition, to the commitments detailed in Note 3 on exploration of mineral properties, the Company has the following commitments:

- (a) Pursuant to the acquisition of the net profit interest over tenements of the Minas De Corrales Project the Company may be required to make a contingent payment of \$1,050 to the vendor on July 30 2008. The amount will only be paid if the average daily price of gold during the 36 month period to 30 June 2008 exceeds \$US 400 per ounce. No liability for this potential payment has been recognized at February 28, 2006 as it is not certain that the contingent payment criteria is met.
- (b) The Texas and Mal Abrigo interests acquired by the Company are subject to a 2% net profits interest and a 1% net smelter return respectively, payable to the vendor.

12. Differences between Canadian GAAP and International Financial Reporting Standards

The company prepares its financial statements in accordance with Canadian GAAP, which conforms to IFRS in all respects material to the Consolidated Financial Statements presented by the Company.