

Viceroy loses \$332,019 in Q1 2006

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Mr. Patrick Downey reports

VICEROY ANNOUNCES 2006 THREE MONTH REPORT

Viceroy Exploration Ltd. has released its financial results for the three months ended March 31, 2006.

In the 2006 first quarter, results of infill, step-out and deep drilling at the Gualcamayo gold property in San Juan province, Argentina, intersected high-grade zones which continue to be open on strike and to depth. As these results impact the then existing resource model, the new resource estimate and updated preliminary economic assessment planned for the 2006 first quarter was delayed. These documents are presently expected to be completed and announced in the 2006 second quarter. The updated preliminary economic assessment will include the three main zones of mineralization, being the expanded Quebrada del Diablo (QDD) resource and the Amelia Ines and Magdalena deposits. The previously announced preliminary economic assessment includes only the QDD resource. Concurrently, technical, engineering and mine-design studies continue in preparation for planned submission of the environmental impact statement and completion of a feasibility study in the 2006 third quarter.

The regional exploration program within the Gualcamayo and adjacent Salamanca properties is continuing. In June, 2005, the farm-out agreement on the company's Las Flechas property was continued for the second year. On May 1, 2006, the company and Corex Gold Corp. signed an agreement whereby Corex may acquire a 60-per-cent interest in the company's 100-per-cent held, 3,938-hectare Evelina property located in the High Andes, in northern San Juan province, Argentina. Pursuant to the terms of the agreement, Corex may earn a 60-per-cent interest in the Evelina property over four years by making expenditures, with preagreed annual minimums, totalling \$3.5-million (U.S.) and by issuing a total of 800,000 common shares. After Corex has earned-in, the company has the right to earn back a 60-per-cent interest, thereby reducing Corex's interest to 40 per cent, by incurring one-and-a-half times the \$3.5-million (U.S.) in expenditures made by Corex. The foregoing is subject to all requisite regulatory approvals. As the company and Corex share a director in common, the agreement has been negotiated at arm's length and has been approved by the independent directors of both companies.

At the company's annual meeting of shareholders held on April 28, 2006, the shareholders of the company ratified a shareholder rights plan which had been previously approved by the directors of the company.

As at March 31, 2006, the company has in excess of \$78.4-million in cash, substantially all of which is available to advance the Gualcamayo project and the company's regional exploration programs.

During the three months ended March 31, 2006, the company:

- in February, with a syndicate of underwriters, completed a \$60-million bought-deal financing consisting of 9.6 million common shares, including an overallotment of 3.2 million shares, at a price of \$6.25 per share;
- announced appointments of additional key senior personnel and the engineering consultants for the feasibility study;
- carried out definition, geotechnical and exploration drilling within the Gualcamayo project that included 46 holes covering 5,626 m, certain of which were in progress at March 31, at which time there were three diamond-drill and one reverse-circulation rigs on site;
- continued technical engineering and geotechnical studies in connection with the updated preliminary economic assessment, baseline study for the environmental impact statement and concurrently began the feasibility study;
- advanced column leach testing, pad location and design, water, waste water/sewage and power supply studies;
- initiated a fines loss program to determine whether the true grade of the ore body is reflected in current drill results;
- continued to develop its community relations program and liaisons with provincial, municipal and local officials;
- began ground preparation to expand the camp by 60 persons to accommodate a total of 160 persons;
- carried out a regional aeromagnetic survey on the Gualcamayo and Salamanca properties which, together with previously completed surface mapping and sampling, identified several drill targets;
- began construction of access roads to the forementioned exploration areas for drilling which is planned for June, 2006; a fifth rig (reverse circulation) has been scheduled for arrival in late May for regional exploration drilling; and
- substantially completed the new access road to the project.

Results of operations

For the three months ended March 31, 2006, (the 2006 first quarter) as compared with the three months ended March 31, 2005 (the 2005 first quarter):

Loss for the period

Being in the exploration stage, the company does not have revenues from operations and, except for income from its cash and cash equivalents, relies on equity funding by investors for its continuing financial liquidity. The principal focus of the company is the continued exploration of its Gualcamayo gold property in Argentina. In support of this activity, for the 2006 first quarter, the company had a loss of \$332,019 as compared with a loss of \$1,303,708 for the 2005 first quarter. A significant component of operating expense in the 2005 first quarter is \$1,092,697 of stock-based compensation recorded pursuant to the company's accounting policy for stock-based compensation. Stock-based compensation recorded in the 2006 first quarter was nil.

The loss before the following in the 2006 first quarter is \$728,629 as compared with \$295,691 in the 2005 first quarter, excluding stock-based compensation. The relative increase in spending is in-line with the overall increase in project activity and includes an increase in cash compensation to existing personnel and an additional staff members at corporate headquarters. Included in professional fees expense in the 2006 first quarter are fees incurred in connection with a continuing control-certification support assignment, which began in the fall of 2005, to assist the company in maintaining compliance with regulatory requirements. In the 2006 first quarter, completion of the \$60-million bought-deal financing occurred resulting in increased interest income; company representatives attended three industry conferences in North America, making presentations at each.

Capitalized exploration expenditures

In the 2006 first quarter, \$4,830,960 was spent substantially, all on the Gualcamayo property, including non-cash \$428,490 stock-based compensation to project geologists and engineers. Capitalized expenditures were incurred primarily in connection with the above-referred drilling, aeromagnetic survey, technical engineering and geotechnical studies and substantial completion of the access road to the site, as compared with \$1,318,448 spent on the Gualcamayo property in the 2005 first quarter primarily continuing the second phase drill program and related activities. Included in cumulative deferred exploration expenditures at March 31, 2006, is \$1,951,707 of Argentine value-added tax. In September, 2005, the company filed an application to recover value-added tax on eligible exploration expenditures incurred. Any amount rebated will be recorded on an as received basis.

Cash flows

Cash used in operating activities in the 2006 first quarter was \$302,123 as compared with cash used in the 2005 first quarter of \$349,491. The relative decrease is substantially a result of additional interest income resulting from the February, 2006, financing applied against spending.

Cash used in investing activities in the 2006 first quarter of \$3,377,467 is substantially all for capitalized exploration expenditures on the Gualcamayo property as referred to above. In the 2005 first quarter, cash of \$1,143,585 was used for capitalized exploration expenditures substantially all on the Gualcamayo property.

Cash from financing activities in the 2006 first quarter of \$59,006,170 comprises the \$56,637,142 net cash from the bought-deal financing and \$2,369,028 from the partial exercise of stock options and warrants as compared with \$218,500 in the 2005 first quarter on the partial exercise of stock options and warrants. Deducted from the gross proceeds received on the bought-deal financing was a \$3-million underwriters' fee (5 per cent) and \$362,858 of expenses.

In summary, for the 2006 first quarter, total cash and cash equivalents increased by \$55,326,580 to \$78,442,839 as compared with a decrease in total cash and cash equivalents for the 2005 first quarter of \$1,274,576 to \$13,224,408.

Liquidity and capital resources (as at March 31, 2006, as compared with Dec. 31, 2005)

As at March 31, 2006, the company has cash and cash equivalents of \$78,442,839 as compared with cash and cash equivalents of \$23,116,259 as at Dec. 31, 2005, an increase of \$55,326,580. The increase is a result of the February, 2006, bought-deal financing which netted the company \$56,637,142. Working capital at March 31, 2006, is \$76,553,485, substantially all of which is available to advance the Gualcamayo project and the company's regional exploration programs.

As of the May 1, 2006, date of this discussion and analysis, the quoted price of the company's common shares on the Toronto Stock Exchange significantly exceeded the exercise prices of the company's outstanding warrants and stock options granted at March 31, 2006. If all outstanding warrants and options were exercised, a total of 5,770,948 common shares would be issued for cash proceeds of \$15,282,007. The outstanding warrants for 2,350,948 shares expire Dec. 6, 2006, and would realize cash proceeds of \$6,465,107. The outstanding stock options for 3.42 million shares have a weighted-average remaining contractual life of 3.62 years and would realize cash proceeds of \$8,816,900.

The company considers its existing funds to be sufficient in order to carry out planned activities on the Gualcamayo gold property that are described elsewhere in this document, as well as for property maintenance requirements and administrative overhead for at least the next 15 months. Development of the Gualcamayo project beyond feasibility will require additional equity or possible debt financing. Discussion has begun on financing alternatives. The company continues to target the 2006 third quarter for a possible production decision.

The functional currency of the company is the Canadian dollar and to date funding has been raised in Canadian dollars. Included in cash and cash equivalents at March 31, 2006, is \$1,033,486 and \$288,955 denominated in U.S. dollars and Argentine pesos, respectively, which are subject to foreign currency rate fluctuations. In conducting its business, the company makes payments as appropriate from time to time in each of these three currencies. Accordingly, as planned increased spending on the Gualcamayo property materializes, the company will be subject to foreign currency rate fluctuations in future between the Canadian dollar and these currencies.

The other external factors and circumstances regarding the financial condition of the company which were provided in the discussion and analysis for the year ended Dec. 31, 2005, are substantially unchanged as at May 1, 2006.

Viceroy Exploration Ltd.
interim consolidated balance sheets
(unaudited - prepared by management)

	March 31, 2006, \$	Dec. 31, 2005, \$
Assets		
Current assets		
Cash and cash equivalents	78,442,839	23,116,259
Prepaid expenses	107,669	143,884
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	78,550,508	23,260,143
Exploration properties	24,775,713	19,944,753
Furniture and equipment -- corporate office	67,907	48,708
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	103,394,128	43,253,604
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,997,023	959,140
Shareholders' equity		
Capital stock (52,661,235 common shares; Dec. 31, 2005 -- 42,033,043 common shares)	104,820,455	45,116,078
Stock options and brokers' warrants	3,855,634	4,125,351
(Deficit)	(7,278,984)	(6,946,965)
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	101,397,105	42,294,464
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	103,394,128	43,253,604

Viceroy Exploration Ltd.
Interim Consolidated Statements of Operations and Deficit
(unaudited - prepared by management)

	Three months ended March 31,	
	2006	2005
	\$	\$
Expenses		
Stock-based compensation		
Directors/officers/employees	-	761,241
Other consultants	-	331,456
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	-	1,092,697
Salaries, benefits and officer consultants	423,286	167,718
Stock exchange/transfer agent/listing application	69,565	11,147
Professional fees	77,497	12,897
Shareholders' communication	21,966	6,884
Amortization	7,539	4,000
Investor relations	53,164	48,796
Travel and lodging	4,935	-
Office and miscellaneous	70,677	44,249
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(Loss) before the following	728,629	1,388,388
Interest income	(408,849)	(82,306)
Foreign exchange (loss) gain	12,239	(2,374)
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(Loss) for the period	332,019	1,303,708
Deficit - beginning of period	6,946,965	3,825,130
Deficit - end of period	7,278,984	5,128,838
Basic and diluted (loss) per share	0.01	0.04

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