

# MANAGEMENT'S DISCUSSION AND ANALYSIS

(All dollar amounts are expressed in thousands of United States dollars unless otherwise stated)

Management's Discussion and Analysis ("MD&A") provides a detailed discussion of Uruguay Mineral Exploration Inc ("the Company") financial and operating results for the year ended 31 May 2008, with comparisons to the previous years.

This MD&A accompanies, and should be read in conjunction with, the audited consolidated financial statements and accompanying notes of Uruguay Minerals Exploration Inc ("UME" or "Company") for the two years ended May 31, 2008. These documents are available on the Company's website at [www.uruguayminerals.com](http://www.uruguayminerals.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). The Company's financial statements and the financial data presented in this document have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A is effective as of 12 August, 2008.

## 1. DESCRIPTION OF BUSINESS

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

The Company operates the only producing gold mine in Uruguay, in the northern Department of Rivera. It has been exploring in Uruguay since 1996 having assembled an exploration portfolio based on gold, base metals and diamonds prospects. In the first half of 2003, the Company discovered the Arenal deposit, and purchased the San Gregorio operations. The Company believes that Uruguay has great, and so far largely unexplored, potential for the discovery and economic production of a variety of mineral resources.

Production for the 2007/08 financial year was 90,668 ounces of gold from the San Gregorio operation. The Company's strategic objectives are to increase gold production through exploration, development and acquisition. The group has significant land holdings throughout Uruguay and has active near mine and regional exploration programmes focused on increasing gold reserves.

## 2. HIGHLIGHTS

Significant achievements for the year ended 31 May 2008

- Gold production of 90,668 ounces at an average cash cost of \$US 413 per ounce compared to 96,420 ounces at an average cash cost of \$US 294 in the prior year.
- Net profit after tax was \$ 7,798 or \$ 0.16 basic earnings per share compared to \$ 14,554 or \$ 0.30 basic earnings per share in the prior year. Net profit after tax for the current year included a write down in capitalised exploration, net of tax, of \$ 8,641 compared to \$ 1,490 in the prior financial year.
- Cash flow from operations was \$ 33,067 before non-cash working capital movements. This compares to \$ 24,177 in the prior year.
- Sales were \$ 79,061 compared to \$ 63,056. The average price of gold sold was \$ 814 per ounce compared to an average price of \$ 610 in the prior year.
- The diversion of the Arroyo Corrales was completed early in the 2008 fiscal year. Rehabilitation of affected area continued throughout the year. Aquatic fauna monitoring shows that the diversion has been inhabited by natural species at pre diversion levels.
- At 31 May 2008 the Group had cash and cash equivalents of \$ 18,601 and debt of \$ 2,300 compared to \$ 13,978 and \$ 3,385 in the prior year.

- During fiscal 2008 \$ 2,742 was paid in dividends and a further \$ 406 was used to repurchase common shares.
- Deep exploration drilling at Arenal has identified a zone of higher grade mineralisation down plunge of the existing Arenal orebody that has the potential to be mined as an underground operation.
- Higher grade resources were defined at Castrillon, Polvorin and Veta Sur during the year. These deposits will provide mine feed for San Gregorio operation in the coming years.
- Exploration work at Presidente Terra and in the Casupá district is defining high potential exploration targets. Initial results of drilling in the southern area of Presidente Terra show thickness of up to 5 meters in width with local 1 meter intercepts greater than 17g/t.
- Detailed geological work at Lascano completed during 2008 confirms potential for IOCG or porphyry copper system.
- The Company increased its investment in acquisition evaluation throughout the year with numerous projects in regional countries being visited.

### 3. OUTLOOK AND STRATEGY

The Corporation is committed to increasing shareholder value through increasing resources and reserves and growing its production profile. The Company's strategy to achieve this objective is organic growth through successful exploration in Uruguay, optimisation of and the development of our San Gregorio Operations and acquisition of properties throughout Latin America that are in production or can be brought into production within a three year timeframe. Our intention is to build value in our base metals and diamonds exploration portfolio before divesting it in an orderly process over 2 years.

The Company plans to produce 80,000 ounces of gold for the 2008/2009 financial year at a cash cost per ounce target of \$US 575 per ounce. This cost assumes that waste mining costs are expensed and that fuel prices are the equivalent to \$US 122 per barrel. Production for quarter 1 of fiscal 2009 is expected to be 17,000 ounces.

### 4. OVERVIEW OF FINANCIAL RESULTS

#### Profit before taxes

Net profit before tax decreased from \$ 17,604 for 2007 to \$ 8,680 for 2008. The reduction in net profit before tax is attributed to the following;

- Current year results include a write off of exploration expenditure of \$ 11,103 compared to \$ 2,129 in the prior financial year.
- Prior year results include a gain on fair value of derivatives of \$ 2,317 compared to no gain in the current financial year.
- An increase in amortisation expense on mine properties.
- Production for fiscal 2008 was 5,752 ounces less than the prior financial year.
- Increased unit cost of production together with increase price per ounce of gold sold.

Table 1 - Operating Earnings

|                          | 2007     | 2006     |
|--------------------------|----------|----------|
|                          | \$000's  | \$000's  |
| Revenue                  | 79,061   | 63,056   |
| Operating expenses       | (38,947) | (31,928) |
| Contribution margin      | 40,114   | 31,128   |
| Amortisation             | (15,724) | (8,361)  |
| Operating profit         | 24,390   | 22,767   |
| Exploration write off    | (11,103) | (2,129)  |
| Derivatives              | 0        | 2,317    |
| Other expenses           | (4,607)  | (5,351)  |
| Net profit before tax    | 8,680    | 17,604   |
| Income tax               | (882)    | (3,050)  |
| Net earnings/            | 7,798    | 14,554   |
| Basic earnings per share | \$ 0.16  | \$ 0.30  |

## Operating Revenues

Operating revenues include gold sales, silver sales and export costs refund granted by the Government of Uruguay for exports.

For the 2008 financial year 92,105 ounces of gold were sold at an average price of \$ 814 per ounce compared to 97,506 ounces at an average price of \$ 610 per ounce during the prior year. Additionally, 161,641 silver ounces were sold at an average price of \$15 compared to 125,641 ounces at an average price of \$ 12 in the prior year.

Export costs refunds granted by Uruguayan Government are fixed as a percentage of FOB value for the export of Doré bars. Export costs refund for 2008 increase to \$ 1,627 compared to \$ 1,498 in the previous year.

Doré containing a mix of gold and silver, is shipped to a refiner in Europe. While risk of loss transfers to the refiner at the mine gate, sales are recognized when precious metals are refined and sold. Refining costs are included in operating expenses.

## Production

During the year 8,820,000 tonnes were mined from the Arenal pit including 1,601,000 tonnes of ore at a grade of 1.96 g/t. The strip ratio for Arenal in 2008 was 4.51 compared to the life of mine average to May 31 2008 of 5.51. A further 258,000 tonnes of ore at 2.56 g/t and 3,365,000 tonnes of waste were excavated from the San Gregorio East, Veta Sur and Veta A pits.

Gold production decreased to 90,668 ounces for 2008 compared to 96,420 ounces for the prior financial year. Production decreased due to industrial action which halted production for 10 days. Recovery was lower than prior years due to higher silver content of ore.

**Table 2 Key Production Statistics**

|                          | 2008      | 2007      |
|--------------------------|-----------|-----------|
| Ore mined (tonnes)       | 1,796,608 | 1,261,000 |
| Grade mined (g/t Au)     | 2.01      | 2.46      |
| Ore processed (tonnes)   | 1,244,341 | 1,312,999 |
| Grade processed (g/t Au) | 2.45      | 2.45      |
| Recovery                 | 92.3%     | 93.1%     |
| Gold produced (ounces)   | 90,668    | 96,420    |

## Production Costs

Total operating costs were \$ 38,947 for 2008 compared to \$ 31,928 in 2007. The increase in operating costs relates to:

- An increase in the average unit price per litre of diesel fuel from \$US .91 per litre at 1 June 2007 to \$US 1.48 per litre at 31 May 2008 with an average cost for the year of \$US 1.17 per litre.
- The Uruguayan Peso to \$US exchange rate fell from \$ 23.71 at 1 June 2007 to \$ 19.75 at 31 May 2008. As local salaries, electricity charges and most local contracts charges generally increasing accordance with local inflation of 8%, the net appreciation in \$US terms during 2008 of these expenses was approximately 30%.
- All inputs made of steel including grinding media, spare parts and wear

**Table 3 - Reconciliation of Operating costs to cash cost per ounce**

|   | 2008       | 2007       |
|---|------------|------------|
|   | \$000's    | \$000's    |
|   | 38,947     | 31,928     |
| Operating expenses                              |            |            |
| Movement in non ore inventories                 | 376        | (369)      |
| Cost for plant expansion and heap leach studies | (512)      | 0          |
| Sub-total                                       | 38,811     | 31,559     |
| Deferred stripping included in depreciation     | 2,479      | (391)      |
| Capital tax                                     | 254        | 243        |
| Export refund and Silver credit.                | (4,099)    | (3,064)    |
| Total cash costs                                | 37,445     | 28,347     |
| Gold production in ounces                       | 90,668     | 96,420     |
| <b>Total cash costs per ounce</b>               | <b>413</b> | <b>294</b> |

- materials have increased by approximately 10% during 2008.
- Royalties during the year increased due to higher gold prices and the requirement to pay land owner royalties on the expanded Arenal pit.

The average cost per ounce produced for 2008 was \$ 413 per ounce compared to \$ 294 per ounce in 2007. The reconciliation of this cash cost per ounce to operating expenses is provided in the table opposite.

A decision was taken in the fourth quarter of 2008 to calculate the net present value of medium grade ore stocks. No value is assigned to low grade stocks. This resulted in a reduction of inventory balances by approximately \$ 984, and increased cash cost per ounce for the year by \$ 10 and the quarter by \$ 47.

### Amortization and Depletion

Amortization and depletion expense increased from \$ 8,361 in 2007 to \$ 15,724 in 2008 due to the following reasons;

- Deferred stripping has been disclosed as an amortisation expense. This represents a net difference in amortisation of \$ 2,480 for the fiscal year.
- Additional amortisation expense in the current year due to the acquisition of the final contingent payment on the net profit interest, river diversion and capitalised exploration.
- Additional amortisation expense attributable to the build in ore stocks as amortisation expense is recognised when ore is mined.

### Other Expenses and Revenues

Other revenues and costs are summarised in the table opposite.

Capitalised exploration expenditure of \$11,103 was written off in 2008. This write off includes all remaining balances for nickel, base metals and diamonds (\$ 4,125) and the accumulated balance for historic and current year unsuccessful gold exploration where work programs have been performed without significant results

Stock compensation expense showed a reduction in compensation compared to the prior year due to the reversal of contributed surplus relating to options forfeited. Interest costs were \$ 371 for 2008, including debt accretion of \$ 153 on convertible notes payable for the acquisition of the net profits interest and \$ 99 for debt accretion on environmental rehabilitation liability.

The \$ 2,602 gain in the "Others" category for 2007 includes an unrealized gain of \$ 2,317 on the fair valuation of gold derivatives. The value for 2008 was nil as all derivative obligations have been settled the previous fiscal year. Included under "Others" for 2008 are interest earned and foreign exchange gains

**Table 4 - Other Revenue and Costs**

|                              | 2008          | 2007         |
|------------------------------|---------------|--------------|
|                              | \$000's       | \$000's      |
| General and administration   | 4,605         | 4,347        |
| Stock Compensation           | 792           | 975          |
| Exploration written off      | 11,103        | 2,129        |
| Interest and financing costs | 371           | 314          |
| Others                       | (1,161)       | (2,602)      |
| <b>Total</b>                 | <b>15,710</b> | <b>5,163</b> |

## Provision for income taxes

An income tax expense of \$ 882 was recorded in 2008 compared to the expense of \$ 3,050 recorded for the last financial year. A reconciliation between the Company's statutory tax expense and the actual tax expense is shown in the table opposite. The major reconciling items are as follows:

- The Company used \$ 322 (2007 \$ 1,923) in tax benefits granted by the Uruguayan government as a result of its capital investments. These benefits are summarized at note 12(d) and (e) to the Financial Statements.
- Tax losses of \$ 2,795 have not been recognised as losses relating to expenditures in Uruguayan subsidiaries without taxable income. A submission to the Uruguayan tax department has been made to treat all 100% owned subsidiaries of the group as a single entity for income tax purposes. If this submission is successful then losses may be recouped in coming years.
- Adjustments for inflation of \$ 981 (2007 \$58) and foreign exchange relating to the preparation of tax returns in Uruguayan pesos of \$ 3,860 (2007 \$ 478)

Table 5 - Tax Expense Reconciliation

|   | 2008     | 2007     |
|---|----------|----------|
|   | \$ 000's | \$ 000's |
| Statutory tax expense / (benefit)   | 3,038    | 6,161    |
| Investment benefits   | (322)    | (1,923)  |
| Difference between statutory tax rate and specific jurisdiction tax rates | 419      | (1,707)  |
| Stock compensation expense  | 285      | 245      |
| Use of tax losses not previously recognized                               | 0        | (2,507)  |
| Fiscal losses not recognized.   | 2,795    | 0        |
| Tax Inflation adjustment  | (981)    | (58)     |
| Foreign exchange  | (3,860)  | (478)    |
| Consolidation adjustments with no tax effect.                             | (417)    | 2,820    |
| Other differences   | 412      | 497      |
| Sub-total   | 1,369    | 3,050    |
| Under (Over) provision for prior financial year                           | (487)    | 0        |
| Tax expense/benefit   | 882      | 3,050    |

## 5. FINANCIAL POSITION

At May 31, 2008, UME had cash resources of \$18,601 compared to \$ 13,978 at 31 May 2007.

### Operating Cash Flow

Cash flow generated from operations before working capital movements was \$ 33,067 for 2008 compared to \$ 24,177 for 2007. Working capital investment was \$ 6,579 in 2008 compared to a cash generation of \$ 1,181 in 2007. The build in medium grade ore stockpiles explains the majority of the working capital investment.

Cash flow from operations includes the results from the San Gregorio operations less the cost of general and administrative expenses, interest and income taxes.

### Investing Activities

Cash flow used in investing activities includes expenditures on property, plant and equipment, mineral properties and exploration expenditure capitalised. Cash flow used in investing activities of \$ 19,119 for 2008 consisted of \$ 4,413 invested in property plant and equipment, \$ 4,746 invested in mineral properties and \$ 9,960 invested in capitalised exploration expenditure.

Cash flow used in investing activities of \$ 19,426 for 2007 consisted of \$ 10,845 invested in property plant and equipment, \$ 1,505 invested in mineral properties and \$ 7,076 invested in capitalised exploration expenditure.

**Table 6 - Reconciliation in movement in cost base of property plant and equipment to cash invested in purchase of property plant and equipment and exploration**

|  | 2008    | 2007    | Description for 2008  |
|--|---------|---------|---|
|  | \$000's | \$000's |   |
| Property, plant and equipment                  | 13,029  | 11,267  | Major items include river diversion, pre-strip cost, expansion of tailings storage facility , purchase of two used haul trucks and mine drill equipment |
| Exploration invested in the year               | 9,960   | 7,261   | Refer to breakdown of expenditure in section 7 of this MD&A   |
|  | 22,989  | 18,528  |   |
| Payment of liability for purchase of NPI asset | 1,050   | 1,050   | Payment of liability associated with prior purchase   |
| Acquisition of NPI asset                       | 0       | (970)   | Recognition of contingent payment   |
| Repayments of deferred finance amounts.        | 0       | 862     | Repayment of Komatsu mining fleet in 2006   |
| Transferred from capitalized exploration       | (6,225) | 0       |   |
| Asset sales and other                          | 2,040   | 306     |   |
| Movement in asset retirement obligation        | (735)   | (350)   |   |
| Cash invested                                  | 19,119  | 19,426  |   |

A review of the future cash flows expected to be generated from UME's mining operations confirmed they exceeded the carrying value of UME's mining assets.

### Financing Activities

Cash inflows from financing activities during 2008 include \$ 592 from the exercise of 635,000 employee share options. For the prior financial year 756,000 options were converted into shares to provide total proceeds of \$ 691 and 250,000 warrants were exercised to provide an additional \$824. Payments for finance leases, net of draw downs, were \$ 188 in 2008 and \$ 57 in 2007.

UME declared and paid a cash dividend of C\$ 0.035 per common share for the second half of the 2007 financial year and C\$0.02 for the first half of the 2008 financial year. No dividends will be paid for the second half of the 2008 financial year as the company plans additional investment in exploration during 2009. The amount and timing of any dividends is at the discretion of the Board of Directors who review their policy periodically based on cash reserves, current and anticipated operating performance and future capital expenditure obligations.

On 11 December 2007 the Company announced its intention to make a Normal Course Issuer Bid to buy back up to \$C 2,000,000 of its common shares over a 12 month period. During the year 130,400 shares have been repurchased at an average price of \$C 3.12 per share. Subsequent to the end of the period a further 143,800 shares have been repurchased at an average price of \$C 2.84.

## 6. EQUITY POSITION

At May 31, 2008 UME had 48,810,868 common shares outstanding. The weighted average number of shares outstanding during the 2008 financial year was 48,911,779. During the 2008 financial year the Company issued 410,333 shares for total value including proceeds, warrant value and contributed surplus of \$ 857. These issues including the exercise of 410,333 stock options at an average price of CDN\$ 1.69 per share. During 2007 the Company issued 1,006,000 shares for a total value of \$ 1,922.

To attract and retain the services of suitably qualified and experienced employees, officers, directors and consultants the Company has adopted a Employee Share Option Plan designed to advance the interests of the Company by encouraging equity participation in the Company. During the 2008 financial year the Company granted 824,000 stock options to employees, officers, directors and consultants and 1,601,000 options were granted in the prior financial year.

A total expense of \$ 792 was recorded in the 2008 financial year for stock based compensation with \$ 975 recorded for 2007.

The Company had 2,859,000 stock options outstanding at May 31, 2008 of which 1,216,000 were exercisable. Stock options outstanding had a weighted average exercise price of CDN\$ 3.99 and a weighted average life of 2.05 years. Stock options represent 6% of the Company's issued common shares. There were no in the money options at 31 May 2008.

On November 30, 2005 a subsidiary of the Company issued three unsecured convertible notes each with a face value of \$ 1,050 pursuant to the acquisition of the 10% net profit interest over key tenements at the San Gregorio operations as detailed at note (8a) to the financial statements. 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 instalment. The first and second convertible note expired in July 2006 and 2007 were paid in cash and were not converted into shares. After the financial year-end, the outstanding debt was completely settled in cash and the convertible notes cancelled.

## 7. DEFERRED EXPLORATION AND EVALUATION COSTS

The following table summaries expenditure on exploration and evaluation during the financial year.

**Table 7: Movement in exploration and evaluation costs**

| <b>Project Area</b>          | <b>Balance<br/>31 May 2007</b> | <b>Transfer to<br/>Mineral<br/>Properties</b> | <b>(Write off)</b> | <b>Expenditure<br/>2008</b> | <b>Balance<br/>31 May 2008</b> |
|------------------------------|--------------------------------|---|--------------------|-----------------------------|--------------------------------|
| Isla Cristalina Belt         | \$ 8,492                       | (6,225)                                       | (6,676)            | 6,377                       | \$ 1,968                       |
| Florida /Arroyo Grande Belts | 1,541                          | -   | (613)              | 1,371                       | 2,299                          |
| Don Feliciano Belt           | 3,025                          | -   | (2,157)            | 852                         | 1,720                          |
| Lascano                      | 2,122                          | -   | -                  | 839                         | 2,961                          |
| Diamonds                     | 1,136                          | -   | (1,455)            | 319                         | -                              |
| Other                        | -                              | -   | (202)              | 202                         | -                              |
| <b>Total</b>                 | <b>\$ 16,316</b>               | <b>(6,225)</b>                                | <b>(11,103)</b>    | <b>9,960</b>                | <b>\$ 8,948</b>                |

The Company spent \$ 2,929 in the fourth quarter of 2007. This compares to \$ 1,880 and \$ 7,031 for the corresponding quarter and full year of 2006.

Each of the major project areas is described below. Details of work performed in the current financial year and planned work for the next year on each of the projects are included in the Company's Annual Report under Exploration for 2008.

### Isla Cristalina Belt

The Isla Cristalina Belt is located 450 km from Montevideo in Northern Uruguay and hosts the Company's one operating gold mine at San Gregorio, in the Minas de Corrales District. This belt is an erosion window into the crystalline Proterozoic basement rocks of northern Uruguay, approximately 110km in length and 40 km in width. The belt of rocks is composed of Proterozoic granites and greenstones ranging in metamorphic grade from greenschist to amphibolite facies. Anomalous gold mineralization exists across the entire 110 km strike length of the belt. Exploration activities are focused around the San Gregorio mine, in the Zapucay district and regional exploration in the eastern and western ends of the belt.

#### **Florida /Arroyo Grande greenstone belts (Piedra Alta Terrain)**

The Florida and Arroyo Grande greenstone belts are composed of Proterozoic meta-volcanic and meta-sedimentary rocks which are hosted in granitic terrain of the Rio de La Plata Craton. This group of rocks is referred to as the Piedra Alta terrain in Uruguay and occupies the south western third of the country. This set of rocks is exposed for 240 kilometres from the western side of the Don Feliciano Mobile Belt to nearly the western border of the country. Exposure of these rocks can be seen locally along the coast line in Montevideo and north 175 kilometres where they are covered by younger Paleozoic and Mesozoic sediments and basaltic lava flows. UME'S gold exploration projects in the Piedra Alta Terrain including Casupá/Crucera, Paso de Lugo, and Nueva Helvecia. Projects are hosted in granitic rocks as well as green stone terrains.

#### **Don Feliciano Belt**

The southern end of the Don Feliciano mobile belt lies 95 kilometres east of Montevideo and trends north-northwest. The belt is exposed for over 250 kilometres along strike and is 40-50 kilometres in width. Younger Paleozoic sedimentary rocks cover the northern third of the belt in Uruguay. The belt of rocks is defined by a structurally deformed Proterozoic meta-sediments, schist and granitoids which are bound on the east and west by two major north trending shears. The mobile belt formed as a result of the collision between South America and Africa at the end of the Proterozoic period. Limited historic precious and base metal mining is reported from the belt. UME has a number of precious metal projects located within this belt of rocks including Presidente Terra, and Texas. Lead, Zinc and Nickel properties such as Retamosa, Isla Patrulla and Maria Albina are also located within this belt.

#### **Lascano**

The Lascano project is located 240 kilometres northeast of Montevideo in the Laguna Marin basin. The project is defined by three large circular, 20 kilometres in diameter, geophysical anomalies. Surface out crop is limited over the anomalies. The anomalies were defined by results from an airborne geophysical survey completed by Bell Geophysical. Drilling this last year has defined lithology which underlies the central anomaly. Units encountered to date include felsic to mafic intrusive rocks that intrude a thick package of vesicular basalt. Minor intermediate and felsic volcanic rocks are also present to a lesser extent. Rock units encountered outside the anomaly are predominately conglomerates and sandstones composed of clasts from the units within the anomaly and overly intermediate to felsic volcanic units.

#### **Diamonds**

The Cinco Rios diamond project is located on the Rio de la Plata craton in the departments of Rivera and Tacuarembó in northern Uruguay, approximately 500 kilometres north of Montevideo. The 100% owned land package is 55,700 hectares in size. The potential for kimberlite discovery in northern Uruguay is shown by the historic recovery of alluvial micro- and macro-diamonds, and peridotitic and eclogitic garnets and chrome spinels during the period 1993 – 2004. The current exploration programme, which commenced at the beginning of 2006, has included follow up sampling, geophysical, and geomorphic studies which have further defined possible source areas. Kimberlite pipe drill targets have been identified from geophysical and geomorphic studies which have associated indicator mineral anomalies.

## **8. RESERVE ESTIMATES**

The most recent disclosure on Resources and Reserves was dated as at 1 July 2007. Since that date, whilst the Company has found a number of additional deposits for which we have estimated an "in-house resource", no material change has occurred in Reserves and Resources that are NI 43-101

compliant except for the depletion through production. The tables below have been updated solely for that depletion.

The Company is in the process of defining additional resources and reserves and expects to provide an updated, NI 43-101 compliant disclosure in March 2009.

#### **Qualified Person's Statement**

The technical information presented in this Statement has been reviewed and verified by Mr John Sadek, Vice President Operations and a Mining Engineer, and Mr. George Schroer Vice President Exploration and a Certified Professional Geologist. Mr. Schroer is the Qualified Person for the purposes of the AIM Guidance Note on Mining, Oil and Gas Companies dated March 2006. Mr. Schroer has a Masters of Science in Geology from Colorado State University and is a member of SEG and AIPG. He has over 20 years of international experience in exploration. Mr. Sadek is the Qualified Person for the purposes of the AIM Guidance Note on Mining, Oil and Gas Companies dated March 2006. Mr Sadek has a Bachelor of Engineering (Mining) from the University of Sydney and is a member of the AusIMM and SME. He has over 20 years of international experience in mining.

As at 1 June 2008 the Company had proven and probable reserves of 244,830 ounces of contained gold. These Mineral Resources and Mineral Reserves, as well as the terms used in this disclosure, are fully compliant with NI 43-101 requirements and CIM Definition Standards all resources and reserves are quoted at a cut off of .5 g/t Au, except for Sobresaliente where 0.7 g/t Au has been used.

Full details of reserves and resources by deposit are shown in the Company's Reserves and Resources Statement in the 2008 Annual Report

## **9. QUARTERLY RESULTS**

Highlights for the quarter ended 31 May 2008:

- Gold production was 20,737 ounces at an average cash cost of \$ 540 per ounce compared to 29,265 ounces at an average cash cost of \$ 273 in the corresponding quarter of 2007.
- Net loss after tax was \$ 3,737 or basic loss per share of \$ 0.076 per share compared to a profit of \$ 6,337 or basic earnings per share of \$ 0.13 in the corresponding quarter of 2007. The net loss for the quarter included a write down in exploration expenditure, net of income tax of \$ 8,641.
- Cash flow from operations before working capital movements was \$ 11,804 for the quarter compared to \$ 11,356 in the corresponding quarter of the prior financial year.
- Operating revenues in the fourth quarter of 2008 were \$ 22,408, compared to \$ 21,840 recorded in the corresponding quarter of 2007. Gold ounces sold were 22,911 ounces at a price of \$ 926 per ounce compared to 31,550 ounces at a price of \$ 658 in the corresponding quarter of 2007.
- During the fourth quarter, 364,421 tonnes of ore were mined from Arenal at an average grade of 1.65 g/t. 41,545 tonnes were also mined from veins at a grade of 2.65 g/t. Plant production for the quarter averaged 103,457 tonnes per month.

The factors that affected the quarterly production and results during the current and prior financial years are as follows:

- During the 2008 fiscal year consistently high silver content in the Arenal ore negatively impacted gold recovery. The process plant was not designed to treat current silver concentrations with limitations being experienced with carbon management and elution capacity. Corrective alternatives are being evaluated and it is anticipated that a solution may be advanced by the end of fiscal 2009.
- Throughout most of the fiscal 2008, slightly more ore than geologically modeled was being encountered at Arenal, albeit at marginally lower grade. However a negative reconciliation was suffered in the final two months of 2007-08 as Arenal was excavated through its western extent in an area below the original Arroyo Corrales. That area had a lower exploration drill

density than other parts of the deposit and included significant portion of Probable Reserves As a result ore grade was lower than anticipated in the last quarter of fiscal 2008. It is anticipated that reconciliation will return to its normal high levels as Arenal continues

- During the fourth quarter 10 days of production were lost as a result of industrial action. This reduced production by approximately 2,500 ounces.

UME's mining revenues and expenses are in general, not seasonal in nature. Nevertheless, San Gregorio can occasionally be adversely affected by inclement weather particularly during the July to September winter period.

**Table 8 2007 Quarterly production**

|                          | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | 2007      |
|--------------------------|-----------|-----------|-----------|-----------|-----------|
|                          | Aug 2007  | Nov 2007  | Feb 2008  | May 2008  |           |
| Ore processed (tonnes)   | 326,974   | 293,657   | 313,340   | 310,370   | 1,244,341 |
| Grade processed (g/t Au) | 1.92      | 3.00      | 2.71      | 2.25      | 2.45      |
| Recovery                 | 91.5%     | 93.0%     | 92.2%     | 92.3%     | 92.3%     |
| Gold produced (ounces)   | 18,488    | 26,317    | 25,150    | 20,713    | 90,668    |

**Table 9 - Quarterly Results for 2008**

(in thousands of US\$ except where otherwise noted)

|   | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Total    |
|---|-----------|-----------|-----------|-----------|----------|
|   | Aug 2007  | Nov 2007  | Feb 2008  | May 2008  |          |
| Gold sold (ounces)                        | 18,987    | 26,461    | 23,746    | 22,911    | 92,105   |
| Average sales price (\$/ounce)            | 661       | 761       | 888       | 926       | 814      |
| Cash operating cost (\$/ounce)            | 425       | 374       | 342       | 540       | 413      |
| Operating revenues                        | 13,253    | 21,180    | 22,220    | 22,408    | 79,061   |
| Operating expenses(*)                     | (7,870)   | (9,800)   | (9,244)   | (12,033)  | (38,947) |
| Contribution margin                       | 5,383     | 11,380    | 12,976    | 10,375    | 40,114   |
| Administration expenses                   | (1,203)   | (1,469)   | (1,333)   | (1,392)   | (5,397)  |
| Amortization and depletion (*)            | (2,865)   | (4,397)   | (3,596)   | (4,866)   | (15,724) |
| Exploration expenditure write off         | 0         | 0         | 0         | (11,103)  | (11,103) |
| Interest and financing costs              | 79        | 160       | 125       | (25)      | 339      |
| Other                                     | 13        | 43        | 24        | 371       | 451      |
| Income taxes                              | (183)     | (1,348)   | (2,254)   | 2,903     | (882)    |
| Net income for the period                 | 1,224     | 4,369     | 5,942     | (3,737)   | 7,798    |
| Basic earnings (loss) per share           | 0.03      | 0.09      | 0.12      | (0.08)    | 0.16     |
| Cash flow from (used in) operations       | 4,161     | 8,782     | 4,416     | 9,129     | 26,488   |
| Cash from (used for) financing activities | 547       | (1,825)   | (316)     | (1,152)   | (2,746)  |
| Cash invested                             | (7,055)   | (3,847)   | (3,899)   | (4,318)   | (19,119) |
| Cash on hand                              | 11,631    | 14,741    | 14,942    | 18,601    | 18,601   |
| Total Assets                              | 76,869    | 82,418    | 87,164    | 83,359    | 83,359   |
| Shareholders Equity                       | 61,252    | 65,783    | 70,720    | 66,960    | 66,960   |

(\*) For quarters 1 to 3 deferred stripping expense has been reclassified from operating expenses into amortization and depletion for the change in the accounting policy related to deferred stripping (Note 3 (a) of the Financial Statements).

**Table 8 2007 Quarterly production**

|                          | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | 2007      |
|--------------------------|-----------|-----------|-----------|-----------|-----------|
|                          | Aug 2006  | Nov 2006  | Feb 2007  | May 2007  |           |
| Ore processed (tonnes)   | 315,309   | 322,214   | 331,058   | 344,417   | 1,312,999 |
| Grade processed (g/t Au) | 2.09      | 2.09      | 2.79      | 2.81      | 2.45      |
| Recovery                 | 90.6%     | 92.6%     | 94.1%     | 94.2%     | 93.1%     |
| Gold produced (ounces)   | 19,175    | 20,059    | 27,921    | 29,265    | 96,420    |

**Table 9 Quarterly Results for 2007**

(in thousands of US\$ except where otherwise noted)

|                                     | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Total    |
|-------------------------------------|-----------|-----------|-----------|-----------|----------|
|                                     | Aug 2006  | Nov 2006  | Feb 2007  | May 2007  |          |
| Gold sold (ounces)                  | 20,809    | 20,416    | 24,731    | 31,550    | 97,506   |
| Average sales price (\$/ounce)      | 568       | 565       | 638       | 658       | 610      |
| Cash operating cost (\$/ounce)      | 332       | 345       | 253       | 273       | 294      |
| Operating revenues                  | 12,177    | 12,433    | 16,606    | 21,840    | 63,056   |
| Operating expenses (*)              | (7,103)   | (8,335)   | (7,715)   | (8,775)   | (31,928) |
| Operating profit                    | 5,074     | 4,098     | 8,891     | 13,065    | 31,128   |
| Administration expenses             | (1,187)   | (1,282)   | (1,507)   | (1,346)   | (5,322)  |
| Amortization and depletion (*)      | (1,661)   | (1,250)   | (1,990)   | (3,460)   | (8,361)  |
| Interest and financing costs        | (88)      | (82)      | (79)      | (65)      | (314)    |
| Other                               | 1,275     | 1,121     | 75        | (1,998)   | 473      |
| Income taxes                        | (846)     | (854)     | (1,491)   | 141       | (3,050)  |
| Net income for the period           | 2,567     | 1,751     | 3,899     | 6,337     | 14,554   |
| Basic earnings per share            | 0.05      | 0.04      | 0.08      | 0.13      | 0.30     |
| Cash flow from (used in) operations | 3,225     | 3,672     | 4,840     | 13,621    | 25,358   |
| Cash from financing activities      | 1,119     | (1,532)   | 365       | (837)     | (885)    |
| Cash invested                       | (4,730)   | (4,883)   | (3,211)   | (6,602)   | (19,426) |
| Cash on hand                        | 8,545     | 5,802     | 7,796     | 13,978    | 13,978   |
| Total Assets                        | 62,651    | 62,725    | 66,177    | 74,941    | 74,941   |
| Shareholders Equity                 | 48,639    | 50,627    | 54,306    | 60,868    | 60,868   |

(\*) Deferred stripping expense has been reclassified from operating expenses into amortization and depletion for the accounting policy related to deferred stripping (Note 3 (a) of the Financial Statements).

## 10. RISKS AND UNCERTAINTIES

UME'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**

UME's revenues, net earnings and cash flow from operations are materially affected 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.

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

UME uses diesel fuel to operate its mobile equipment fleet. The unit cost of diesel fuel has risen significantly. While there is some historical correlation between the fuel price and gold price UME's operating costs and cash flows are materially affected by changes in the oil price.

### **Key Personnel Risks**

Recruiting and retaining qualified personnel is critical to UME'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 UME's business activity continues to grow, it will be required to hire additional personnel and retain the services of key personnel. Although UME 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**

UME'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 favourable terms.

UME currently has one producing asset, the San Gregorio gold 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 resources and reserves stated have been quantified according to the Australasian Institute of Mining and Metallurgy Code of Mineral Resource Estimation, which is the basis of reporting used by the Australian Stock Exchange.

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 Arroyo (Stream) Corrales has been diverted to allow for expansion of the Arenal Pit. There is a risk of water ingress into the pit as a result of this diversion. Geotechnical studies and detailed field investigation during diversion construction has identified no permeable structures that could permit significant water flow between the river diversion and the Arenal pit. Together with the 100m spacing between the river diversion and the designed ultimate pit crest of Arenal, the probability of significant water inflow into the open pit is considered to be low. This will continue to be monitored and dealt with on an operational level via standard industry counter measures should any unforeseen inflow occur.

The flood protection dykes are built to a 1 in 1,000 year rainfall criteria and need to protect the Arenal open pit operations for 1 year based on current mine plans. Whilst statistically this design criteria is considered to be adequate, there can be no guarantee that a 1 in 1,000 year flood event does not occur within the next year. Obviously the operational impact of such a rainfall event is dependent upon its size, but historically large flooding events are of short duration with water levels peaking after much warning. Such events do not pose a significant risk to personnel or equipment; however contingency plans for pit recovery through pumping are to be evaluated.

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**

All prospecting, exploration and mining licenses and titles in Uruguay are granted by the Government of Uruguay for finite periods of time. The Government is bound by strict rules of priority of application, and security of title once granted. However Uruguay is a sovereign state, and there can be no guarantee that the State 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.

Individual titles expire from time to time and UME 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.

### **Political and Economic Risks**

Political conditions in Uruguay stable. Changes may however occur in Uruguay's 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.

## **11. FINANCIAL INSTRUMENTS**

UME does not enter into financial instruments for trading or speculative purposes. The levels of derivatives contracts the Company have entered into in the past had been consistent with forecast production.

No outstanding hedge commitments existed at 31 May 2008.

## **12. CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

**Table 12: Payments due by period**

|                                 | <b>Total</b> | <b>Less than<br/>1 Year</b> | <b>1-2 Years</b> | <b>2-3 years</b> | <b>3-4 years</b> | <b>4-6 Years</b> |
|---------------------------------|--------------|-----------------------------|------------------|------------------|------------------|------------------|
| Convertible notes & payment (a) | 2,100        | 2,100                       |                  |                  |                  |                  |
| Finance Lease                   | 212          | 187                         | 25               |                  |                  |                  |
| Deferred tax payment            | 2,414        |                             |                  | 2,414            |                  |                  |
| Asset Retirement obligations    | 2,869        |                             |                  | 602              | 1,089            | 1,177            |
| <b>Total</b>                    | <b>7,595</b> | <b>2,287</b>                | <b>25</b>        | <b>3,016</b>     | <b>1,089</b>     | <b>1,177</b>     |

On March 23, 2007, in accordance with an agreement with Delcosur the Company issued 20,000 non-transferable warrants to purchase common shares of the Company. The Company is required to spend \$ 1,050 on exploration over three years to exercise its option to acquire 100% of Delcosur

tenements. Upon exercise of the option by the company Delcosur will be entitled to receive a net smelter return royalty of 1% from any gold production from the properties acquired from Delcosur. (See note 10 (d) and 6 (b) of the Financial Statements).

On May 22, 2007 the Company executed with ABN AMRO NV Sucursal Montevideo a guarantee letter by which a line of credit of \$ 2,500 was granted to the Company to be used for trade facilities, leasing, issuance of guarantees and general purposes. As of May 31 2008, \$ 212 was drawn for vehicle leasing, and \$1,634 was used for the issuance of guarantees for exploration permits.

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

During 2007 the Company signed an agreement with Southern Era Diamonds Inc. to purchase its Uruguay diamond exploration database. Under the terms of the agreement Southern Era was paid \$ 20 and an additional 0.8% royalty on any net diamond sales from any diamond deposit discovered by the Company in Uruguay. A further 0.2% royalty will be paid to a third party, who has an interest in the database (See note 6 (c) i of the Financial Statements)

### 13. RELATED PARTY TRANSACTION

The Company has paid and accrued Directors fees of \$ 205 during the year and \$ 55 during the fourth quarter. These transactions are measured and recorded at the amount of consideration established and agreed by the related parties based in their estimate of fair market value. Total comparative related party transactions were \$ 161 for the 2007 financial year.

### 14. 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, and 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;

**Asset retirement obligation:** the fair value of the liability is determined based on the net present value of estimated future costs done by management based on feasibility and engineering studies on a site by site basis. The discounted value of these asset retirement obligations as at May 31 2008 was \$ 2,869 and is included in the mine closure and site restoration liability. The \$ 1,010 unamortized balance of asset retirement costs as at May 31, 2008 is included in Property, plant and equipment and mineral properties. While care was taken to estimate the asset 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.

**Deferred stripping costs:** For the Arenal pit the Company defers stripping cost incurred over the estimated average strip ratio for each mine life. This policy is applied when the Company is able to estimate a mine plan for the pit to determine future strip ratio fluctuations and average strip ratio for the mine life.

**Net future 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 future income taxes. As at May 31, 2008, UME's had unrecognized tax losses of \$ 6,731 in Uruguay, \$ 884 in Barbados and, \$ 2,047 in Canada. No deferred tax effect has been recognized on their value as the Company is prudent about their utilization against future profits.

**Exploration and evaluation expenditure:** The recoverability of amounts shown for capitalized exploration and evaluation expenditure is dependant upon the discovery of economically recoverable reserves. At May 31, 2008, UME wrote down the carrying value of exploration assets of \$11,103 (2007 \$ 2,129).

## 15. CHANGES IN CANADIAN ACCOUNTING RECOMMENDATIONS

### Financial Instruments, Comprehensive Income and Hedges

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis.

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method;
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

### Accounting Changes

CICA Handbook Section 1506: Accounting Changes ("CICA 1506") effective for fiscal years beginning on or after January 1, 2007 establishes standards and new disclosure requirements for the reporting of changes in accounting policies and estimates and the reporting of error corrections. CICA 1506 clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application of prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to the assets and liabilities of the earliest period practicable, with a corresponding adjustment made to opening retained earnings.

### **Future Accounting Changes**

In June 2007, a replacement section for inventories, Section 3031 "inventories" was issued and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write off 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 and is effective for the fiscal years beginning on or after June 1, 2008. The Company has not yet determined the impact of adopting the above accounting standards.

## **16. DISCLOSURE CONTROLS, PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

### *Disclosure Controls and Procedures*

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 management's discussion and analysis, 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 management's discussion and analysis, 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 to provide 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.

During the period covered by this management, discussion and analysis, 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 financial year ended May 31<sup>st</sup>, 2008 which materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

## 17. 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 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 amortisation, corporate costs and financing costs are not included. Cash costs are total cash costs divided by gold ounces produced. This calculation is detailed below.

**Table 13 Cash cost per ounce calculation**

|                                   | Quarter 1  | Quarter 2  | Quarter 3  | Quarter 4  | Year       |
|-----------------------------------|------------|------------|------------|------------|------------|
|                                   | Aug 2007   | Nov 2007   | Feb 2008   | May 2008   | May 2008   |
| Operating expenses (000)          | 8,323      | 10,582     | 9,863      | 10,179     | 38,947     |
| Other (000)                       | (471)      | (746)      | (1,309)    | 1,024      | (1,502)    |
| Total cash costs (000)            | 7,852      | 9,836      | 8,554      | 11,203     | 37,445     |
| Gold production in ounces         | 18,464     | 26,317     | 25,150     | 20,737     | 90,668     |
| <b>Total cash costs per ounce</b> | <b>425</b> | <b>374</b> | <b>342</b> | <b>540</b> | <b>413</b> |

### 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.