

URUGUAY MINERAL EXPLORATION



**Management Discussion & Analysis
for the period ended August 31, 2008**

Prepared as at: October 9, 2008

Uruguay Mineral Exploration Inc.
Management Discussion and Analysis
August 31, 2008

(Thousands of United States Dollars, except where indicated)

Management's discussion and analysis ("MD&A") provides a discussion of the Company's financial and operating results for the quarter ended August 31, 2008 with comparisons to previous quarters.

This MD&A accompanies, and should be read in conjunction with, the un-audited interim financial statements and accompanying notes of Uruguay Mineral Exploration Inc ("UME" or "Company") for the three month period ended August 31, 2008. All amounts are expressed in thousands of US\$, unless otherwise indicated. The reader should also refer to the audited financial statements for the two years ended May 31 2008 and 2007 and the related Management Discussion and Analysis ("MD&A"), both of which are available on the Company's website at www.uruguayminerals.com and on SEDAR at 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 October 9, 2008.

1. HIGHLIGHTS

Financial highlights for the three-months ended August 31, 2008 include:

- Gold production of 16,439 ounces at an average cash cost of \$ 792 per ounce compared to 18,488 ounces at an average cash cost of \$ 425 per ounce in the prior financial year. The year-on-year decline in production resulted from the lower gold grade. In comparison to the corresponding quarter of the prior year higher costs, in turn, reflect increased fuel and consumable unit costs, the appreciation of the UY Peso against the US dollar and extraordinarily low costs in the first quarter of 2007 as equipment was used for the river diversion and therefore costs were capitalized.
- While production was slightly below the 17,000 ounces expected for the quarter, the Company remains on track to achieve its annual production target of 80,000 ounces at an average cash cost target of \$US 575 per ounce as higher grade production is anticipated for the remainder of the year.
- Net loss after tax of \$ (2,854) or \$ (0.06) basic loss per share compared to a net profit after tax of \$ 1,224 or \$ 0.03 basic earnings per share in the corresponding period of the prior financial year. The net loss included a non hedge derivatives loss of \$1,528.
- Cash flow from operations was \$ 1,729 before non-cash working capital movements. This compares to \$ 4,110 in the same period last year.
- Cash balance remains at \$ 12,351, after settlement of the final payment of the net profit interest convertible note of \$ 2,100, paying down \$ 147 in debt, a \$ 401 share buyback, and after investing 60% of the budgeted capital expenditure for the year. The company now has minimal debt obligations. 45,000 ounces of production, representing 70% of the groups anticipated production for the remainder of the financial year was hedged to reduce price uncertainty in the current economic environment and provide greater certainty that funding would be available for all priority exploration targets.
- Sales were \$ 17,721 and the average price of gold sold was \$ 895 per ounce compared to \$13,253 at an average price of \$ 661 in the corresponding period of the prior financial year.

Summary of significant exploration and development events for the three-months ended August 31, 2008:

- At Arenal, drilling continued to test the deep portion of the deposit, with significant intercepts reported from four of the five holes completed. Drilling to-date in the down plunge area has defined an area of 15,000 square meters by 2 to 20 meters thick ranging in grade from 2 to 5 g/t. An independent resource estimate is planned once drilling is completed by the end of the third quarter, followed by engineering and feasibility studies.
- At Nueva Australia, interpreted to be the western structural offset of the main San Gregorio structure, three holes were completed. One hole reported the existence of thicker higher-grade mineralization with the potential to host a significant gold resource. The next round of drilling is expected to be completed by December 2008.
- At the Los Castillos sector, surface mapping and sampling defined a structural trend that is over 800 meters in strike length and is interpreted to be the offset eastern extension of the Arenal structure. Consistent rock chip results of up to 48 g/t were collected from this trend. Drilling is planned for late 2008 or early 2009 dependent on permits.
- Permits were received for vein targets at Esperanza, Peru and Minas de Corrales and the Company expects to begin drilling in November.
- At Presidente Terra, results of a first drill pass program of 51 holes over 6.6 kilometres demonstrate that gold mineralisation is continuous. Follow up exploration during the rest of 2008 will use these results to target higher-grade areas and bulk targets.
- Significant mineralization was also discovered at Paso de Lugo in the Arroyo Grande Belt. This is a vein/shear system of at least 3 kilometres in length and 100 meters wide at surface defined by significant rock chip anomalies ranging from 0.5 g/t to 8.0 g/t. UME will continue to further define drill targets for early 2009, though drilling could start as soon as permits are acquired.
- At Lascano, drilling at a fourth hole is in progress and permits have been received for an additional five drill holes. Drilling demonstrates the extensive nature of the Lascano system and its potential for a major ore body.

2. OVERVIEW OF FINANCIAL RESULTS

2.1 Operating revenues

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

Total sales for the quarter were \$17,721 compared to \$13,253 for the corresponding period of the prior financial year. The average gold price for the quarter rose to \$ 895 per ounce from \$ 661 in the first quarter of 2007.

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.

At the end of August the Company hedged 45,000 ounces of its forecast production for the remaining of the financial year. The forward price is \$ 796.25 per ounce with delivery into the hedge starting September 2008 at a rate of 5,000 ounces per month. The objective of this hedging is to provide greater certainty that cash from operations is available to drill all priority gold exploration targets.

2.2 Profit (loss) before taxes

During the quarter the Company reported a net loss before taxes of \$ 2,879 compared to a net profit after taxes of \$ 1,407 for the first quarter of 2007. An operating loss for the quarter of \$ 82 was recorded compared to an operating profit of \$ 2,518 in the corresponding quarter of the prior year.

Table 1 - Sales composition

Quarter 1 - 2008	\$000's	Oz	\$ per oz
Gold	16,271	18,182	895
Silver	1,084	66,607	16
Export refund	366		
Total Sales	17,721		
Quarter 1 - 2007	\$000's		
Gold	12,547	18,987	661
Silver	374	29,596	13
Export refund	332		
Total Sales	13,253		

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Table 2 (Operating Results) opposite shows the composition of the profit (loss) before taxes year-on-year.

The year-on-year decrease in operating profit is explained by higher operating costs, partially offset by a higher gold price.

Net profit before taxes for the quarter was also negatively affected by an unrealized loss of \$ 1,528 derived from the fair value of the hedge committed in August 2008. The Company does not apply hedge accounting which would allow deferring gains and losses on hedging derivatives to the same period or periods in which the underlying exposure being hedged is brought to account. Instead, the fair value of the hedging derivative is recognized in the Company's net income in the period in which the hedge was committed. Hedging commitments end during the current financial year.

Table 2 - Operating Results

	Quarter 1 2008	Quarter 1 2007
	\$000's	\$000's
Revenue	17,721	13,253
Operating expenses	(14,803)	(7,870)
Contribution margin	2,918	5,383
Amortization	(3,000)	(2,865)
Operating profit (loss)	(82)	2,518
Fair value of derivatives	(1,528)	0
Other expenses	(1,269)	(1,111)
Profit (loss) before taxes	(2,879)	1,407

2.3 Operating costs

Operating expenses were \$14,803 for the quarter, equivalent to cash costs per ounce of \$792. This compares to an operating expense of \$ 7,870 for the first quarter of the prior financial year, or cash costs per ounce of \$425. The \$575 average cash cost target for the year remains unchanged as the Company anticipates higher gold grades during the remainder of the financial year.

Table 3 (Operating expenses) opposite explains the difference between Q1 2007 and Q1 2008 operating expenses while Table 4 (Reconciliation of operating costs to cash cost per ounce) below shows the calculation of cash costs.

Higher costs year on year reflect increased fuel and consumable unit costs, the appreciation of the UY Peso against the US dollar and extraordinarily low costs in the first quarter of 2007 as equipment was used for the river diversion and therefore costs were capitalized.

Table 3 - Operating expenses

Q1 2007	7,870
Salaries increase (mainly related to the Peso depreciation)	549
Fuel and electricity cost increase	1,410
Capitalisation 2007 costs	1,984
Difference in ore stock movements	2,081
Explosives	420
Other (mainly consumables)	489
Q1 2008	14,803

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Cash costs per ounce for the three-month period stood at \$ 792, above the forecast cash cost for the year of \$ 575. The main factors explaining why costs in the current quarter are higher than the forecast for the full year are higher running volumes and mining of lower grades ore.

2.4 Amortization and depletion

Amortization and depreciation expense was \$ 3,000 for the current quarter compared to \$ 2,865 in the corresponding quarter of the prior year. Amortization of pre-strip costs and capitalized exploration for San Gregorio East and Polvorin started during this quarter.

Table 4 - Reconciliation of Operating costs to cash cost per ounce

	Q1 2008	Q1 2007
	\$000's	\$000's
Operating expenses	14,803	7,870
Movement in non ore inventories	(739)	201
Cost for plant expansion and heap leach studies	(21)	0
Sub-total	14,043	8,071
Deferred stripping included in depreciation	355	453
Capital tax	69	33
Export refund and Silver credit.	(1,450)	(705)
Total cash costs	13,017	7,852
Gold production in ounces	16,439	18,488
Total cash costs per ounce	792	425

2.5 Other Revenues and corporate expenses

Other revenues and corporate expenses for the quarter were \$ 1,269 compared to \$ 1,111 for the first quarter of 2007. A breakdown of such income and costs is shown opposite in Table 5.

Uruguay capital taxes included in corporate costs were \$ 105 for the quarter compared to \$ 63 in the corresponding period of the prior financial year. The increase is due to the capital tax applicable over a higher balance of inventories at the end of the quarter.

During the quarter no options were granted. The stock option expense for the quarter was \$ 37 against \$ 192 for the corresponding quarter of the prior year. Current expense for the quarter includes the reversal of \$ 188 forfeited options before their expiry date.

Net interest gains for the quarter were \$ 54 compared to \$ 121 for the corresponding quarter of the prior financial year as a result of a lower cash balance.

The increase in foreign exchange loss is due to the higher appreciation of the Uruguayan peso currency against the US dollar (functional currency) this quarter compared to the same period last year.

Table 5 - Other revenues and corporate expenses

	Quarter 1 2008	Quarter 1 2007
	\$000's	\$000's
Corporate overheads	1,093	948
Capital tax	105	63
Stock based compensation	37	192
Foreign exchange loss	152	42
Net interest gain	(54)	(121)
Other income	(64)	(13)
	1,269	1,111

2.6 Production

During the quarter 335,832 tonnes of ore at an average grade of 1.67 g/t were processed at San Gregorio to produce 16,439 ounces of gold. Recovery for the quarter stood at 91.4%, in line with budget estimates although slightly reduced from historical averages due to the lower head grade. The main reason for the year-on-year reduction in production from 18,488 ounces in the first quarter of 2007 was the lower gold grade this quarter (1.67 vs 1.92 g/t).

Ore was sourced primarily from the Arenal open pit, but supplemented from Veta Sur and Polvorín. Veta Sur was exhausted early in the quarter and Polvorín commenced later than anticipated due to delays in the permitting process. Ore reconciliation from Arenal is somewhat below the geological model, but is being offset by an increased excavation rate to limit the shortfall of high grade ore fed to the process plant. Initial indications from Polvorín suggest that it could be larger than first understood and that it will complement the bulk ore feed from Arenal through to the third quarter. The Company's annual production target remains at 80,000 ounces of gold.

Torrential rains during August initiated a localized slip on the east wall of Arenal. Although this will have no impact on the production of ore, up to \$250,000 of costs will be incurred to ensure longer term safety of the open pit.

During the quarter, backfill continued to be placed into Veta A next to the Tailings Storage Facility. Whilst not necessary for stability purposes, this work is in accordance with the original permitting conditions of Veta A. Once the backfilling has been completed during the second quarter of fiscal 2009, the power supply line for the operation will be installed on its original trajectory.

Production statistics are summarized in Table 6 below.

Table 6 - Quarterly production statistics

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	Nov-06	Feb-07	May-07	Aug-07	Nov-07	Feb-08	May-08	Aug-08
Ore processed (tonnes)	322,214	331,058	344,417	326,974	293,657	313,340	310,370	335,832
Head Grade (g/t Au)	2.09	2.79	2.81	1.92	3.00	2.71	2.25	1.67
Recovery	92.6%	94.1%	94.2%	91.5%	93.0%	92.2%	92.3%	91.4%
Gold produced (ounces)	20,059	27,921	29,265	18,488	26,317	25,150	20,713	16,439

3. FINANCIAL POSITION

3.1 Cash and other liquid resources

Cash decreased from \$ 18,601 at the beginning of the quarter to \$ 12,351 at August 31, 2008.

Cash flow from operations for the quarter was \$ 1,152 after using \$ 577 in non-cash working capital items. This compared to \$ 4,110 after generating \$ 51 from non-cash working capital items in the corresponding quarter of the prior year. The decrease in cash flow from operations was primarily a result of the increase in operating expenses and lower production volumes

In addition, this quarter the Company bought back shares for a total of \$ 401, and spent a significant portion of the capital expenditure for the year.

After paying down \$ 2,147 in debt, the Company's debt has been reduced to \$ 166 in lease liabilities. A strong balance sheet, together with hedging undertaken in August to reduce uncertainty in the current economic environment is expected to ensure the required cash generation to finance all priority exploration targets for the year.

3.2 Capital Expenditure

Expenditure on property plant and equipment for the quarter was \$ 3,873 compared to \$ 4,747 for the year ago quarter.

Payments for the quarter included \$ 2,100 to settle debt for the acquisition of the 10% net profit interest over a key tenement within the Minas de Corrales project, including the tenement in which Arenal deposit is located. This represents the last payment for the acquisition of such interest with no debt outstanding.

In addition, \$ 1,773 was invested in property, plant and equipment, mainly in the acquisition of an additional used PC1250 excavator, and the completion of the construction of the tailings facilities and pre-stripping activities in the San Gregorio East pit.

Exploration expenditure was \$ 3,081 for the quarter, of which \$ 1,807 was invested in near mine exploration activities and exploration within the Isla Cristalina, \$ 790 was invested on other gold projects in the Florida and Dom Feliciano Belts and \$ 332 in the Lascano drilling program. A further \$152 was invested in general exploration overheads, in farm out process for base metals and diamonds projects and the evaluation of a possible acquisition outside Uruguayan territory.

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Table 7 below summarizes expenditure on exploration during the quarter.

Table 7 – Exploration expenditure by areas

Project Area	Balance 31 May 2008	Transfer to Mine Properties	(Write off)	Expenditure 1 Q 2008	Balance 31 August 2008
Isla Cristalina Belt	\$ 1,968	-	-	1,807	3,775
South Uruguay exploration	4,019	-	-	790	4,809
Lascano	2,961	-	-	332	3,293
Diamonds	-	-	-	11	11
Others	-	-	-	56	56
Indirect overheads	-	-	-	85	85
Total	\$ 8,948	-	-	3,081	12,029

Each of the major project areas is described in section 12 of this document. Details of work performed during the quarter are included in the Company's Exploration Report for the quarter ended August 31, 2008.

3.3 Funding

During the quarter no employee options were exercised compared to 395,333 employee option on the same quarter of the previous financial year that provided proceeds of \$ 593. The decline in the Company's stock price left an outstanding amount of 2,699,000 employee options "out of the money", with a weighted average exercise price of CDN\$ 3.97 per share, out of which 1,192,000 stock options at a weighted average exercise price CDN\$ 4.35 per share were vested.

At August 31, 2008 UME had outstanding 20,000 non transferable warrants at an exercise price of CDN\$ 4.56 expiring in March 2009. At August 31, 2007, the Company also had 250,000 options in convertible notes for the acquisition of the net profit interest over key tenements in the Minas de Corrales project. At date of expiry in June 2008, notes were not converted into shares and paid down in cash.

On December 11, 2007 the Company announced its intention to buy back up to \$CDN 2,000,000 of its common shares over a 12 month period. During the quarter, 143,800 common shares were repurchased at a weighted average price of CDN\$ 2.85 per share resulting in a cash investment of \$ 401. To-date, a total of 274,200 common shares were repurchased for a total of \$ 807.

3.4 Financial instruments

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

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In August 2008, UME committed to a hedging of 45,000 ounces, approximately a 70% of forecast production for the year. The hedge was committed at a forward price of USD 796.25 per ounce and is deliverable on a monthly fixed amount of 5,000 ounces from September 2008 to May 2009. No outstanding hedge commitments existed at 31 August 2007.

A loss of \$ 1,528 is shown in the quarter to reflect the fair value of the hedge commitment for the current financial year. The fair value amount is shown net of its tax effect.

3.5 Contractual obligations and commitments

The Company's contractual obligations and commitments are as follows

	Total	Less than 1 Year	1-2 Years	2-3 years	3-4 years	More than 4 Years
Finance Lease	166	150	16	-	-	-
Asset Retirement Obligations	2,904	-	610	2,145	106	43
Total	3,070	150	626	2,145	106	43

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.

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 August 31 2008, \$ 166 was drawn for vehicle leasing, \$ 1,533 was used for the issuance of guarantees for exploration permits and nil was used for letter of credit facilities.

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.

Under the terms of the agreement with Southern Era Diamonds Inc the Company has an obligation to pay a royalty of 1% on any net diamond sales from any diamond deposit discovered by the Company in Uruguay.

There were no new obligations or commitments executed during the quarter with the exception to hedge production as stated in 3.4 of this MD&A.

4. OUTLOOK

Results for the quarter are broadly in line with expectations. The Company confirms its plans to produce 80,000 ounces of gold for the 2008 financial year at a cash cost target of \$US 575 per ounce.

5. RELATED PARTY TRANSACTIONS

The Company has no related party transactions.

6. 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 August 31 2008 was \$ 2,904 and is included in the mine closure and site restoration liability. The \$ 881 unamortized balance of asset retirement costs as at August 31, 2008 is included in property, plant and equipment. 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.

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.

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

7. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

7.1 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.

7.2 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, 2008 which materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

8. 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.

8.1 Sensitivity to commodity prices and foreign exchange rates

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

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 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.

8.2 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 the 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.

8.3 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 favorable terms.

UME currently has one producing asset, the Minas de Corrales 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, labor disputes and environmental hazards are also beyond the Group's control.

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

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

The Arroyo (Stream) Corrales has been diverted to allow 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 3 years. 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 three years. 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.

8.4 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.

8.5 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.

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9. QUARTERLY RESULTS

Quarterly Results (in thousands of US\$ except where otherwise noted)								
	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1
	Nov 2006	Feb 2007	May 2007	Aug 2007	Nov 2007	Feb 2008	May 2008	Aug 2008
Gold sold (ounces)	20,416	24,731	31,550	18,987	26,461	23,746	22,911	18,182
Average sales price (\$/oz)	565	638	658	661	761	888	926	895
Cash operating cost (\$/oz)	345	253	273	425	374	342	540	792
Operating revenues	12,433	16,606	21,840	13,253	21,180	22,220	22,408	17,721
Operating expenses	(8,335)	(7,715)	(8,775)	(7,870)	(9,800)	(9,244)	(12,033)	(14,803)
Contribution Margin	4,098	8,891	13,065	5,383	11,380	12,976	10,375	2,918
Administration expenses	(1,282)	(1,507)	(1,346)	(1,203)	(1,469)	(1,333)	(1,392)	(1,234)
Amortization and depletion	(1,250)	(1,990)	(3,460)	(2,865)	(4,397)	(3,596)	(4,866)	(3,000)
Fair value of derivatives	0	0	0	0	0	0	0	(1,528)
Exploration write off	0	0		0	0	0	(11,103)	0
Interest and foreign exchange	(82)	(79)	(65)	79	160	125	(25)	(99)
Other	1,121	75	(1,998)	13	43	24	371	64
Income Tax	(854)	(1,491)	141	(183)	(1,348)	(2,254)	2,903	25
Net income for the period	1,751	3,899	6,337	1,224	4,369	5,942	(3,737)	(2,854)
Basic earnings per share	0.04	0.08	0.13	0.03	0.09	0.12	(0.08)	(0.06)
Cash flow from (used in) operations	3,672	4,840	13,621	4,161	8,782	4,416	9,129	1,152
Cash from (used for) financing	(1,532)	365	(837)	547	(1,825)	(316)	(1,152)	(448)
Cash invested	(4,883)	(3,211)	(6,602)	(7,055)	(3,847)	(3,899)	(4,318)	(6,954)
Cash on hand	5,802	7,796	13,978	11,631	14,741	14,942	18,601	12,351
Total Assets	62,725	66,177	74,941	76,869	82,418	87,164	83,359	79,155
Shareholders Equity	50,627	54,306	60,868	61,252	65,783	70,720	66,960	63,742

10. NON GAAP MEASURES

Cash flow from operations, contribution margin and cash cost per ounce are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non GAAP measures. Therefore these measures may not be comparable to similar measures presented by other issuers. These measures have been presented in this MD&A as additional information regarding the Company's financial performance and financial position.

Cash flow from operations is calculated by adding back non-cash items to 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

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to metal production. Capital expenditure, depletion and amortization, corporate costs and financing costs are not included. Cash costs are total cash costs divided by gold ounces produced. This calculation is detailed below.

	Quarter 3 Feb 2007	Quarter 4 May 2007	Quarter 1 Aug-07	Quarter 2 Nov-07	Quarter 3 Feb-08	Quarter 4 May-08	Quarter 1 Aug-08
Operating expenses (000)	7,374	9,738	7,870	9,800	9,244	12,033	14,803
Other (000)	(303)	(1,748)	18	36	(690)	(830)	(1,786)
Total cash costs (000)	7,071	7,990	7,852	9,836	8,554	11,203	13,017
Gold production in ounces	27,921	29,265	18,488	26,317	25,150	20,737	16,439
Total cash costs per ounce	253	273	425	374	342	540	792

11 . 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.

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12. EXPLORATION PROJECTS DESCRIPTION

12.1 Isla Cristalina Belt ("ICB"):

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.

12.2 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 southwestern third of the country. This set of rocks is exposed for 240 kilometers 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 kilometers where they are covered by younger Paleozoic and Mesozoic sediments and basaltic lava flows. UME has several gold exploration projects in the Piedra Alta Terrain including Casupa/Crucera, Paso de Lugo, and Nueva Helvecia. Projects are hosted in granitic rocks as well as green stone terrains.

12.3 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.

12.4 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

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outside the anomaly are predominately conglomerates and sandstones composed of clasts from the units with in the anomaly and overly intermediate to felsic volcanic units.

12.5 Diamond

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.