



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended 31 May 2009

(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 31, 2009, 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, 2009 and May 31, 2008. Additional information relating to the Company, including press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online at www.sedar.com or on the Company's website at www.uruguayminerals.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 11 August, 2009.

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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 San Gregorio gold operations, the only producing gold mine in Uruguay, in the northern Department of Rivera. It has been exploring in Uruguay since 1996 and acquired the San Gregorio operation in October 2003.

The Company has strategic land holdings throughout Uruguay and has active near mine and regional exploration programmes focused on increasing gold reserves. The recent results following the pre-feasibility study of Arenal Deeps provide confidence that the mine life at San Gregorio will be extended and reinforce the potential for further underground discovery in the rest of the San Gregorio district.

2. HIGHLIGHTS

The highlights for the year ended May 31, 2009 are:

- Gold production of 70,147 ounces at an average cash cost of \$ 705 per ounce compared to 90,668 ounces at an average cash cost of \$ 413 in the prior year.
- Net loss after tax was \$ 14,355 or \$ 0.29 basic loss per share compared to \$ 7,798 or \$ 0.16 basic earnings per share in the prior year. Net profit after tax for the current year included a write down in capitalized exploration of \$ 2,694 compared to \$11,103 in the prior financial year.
- Cash flow from operations was \$ 9,404 before non-cash working capital movements. This compares to \$ 33,065 in the prior year.
- Sales were \$ 63,376 compared to \$ 79,061 in the prior year. The average price of gold sold was \$ 841 per ounce compared to an average price of \$ 814 in the prior year.
- At May 31, 2009 the Group had cash and cash equivalents of \$ 9,496 and debt of \$ 37 compared to \$ 18,601 and \$ 2,300 in the prior year.
- Approximately 20,000 ounces of open pit vein resources were defined at Castrillón, Polvorín, and Veta Sur.
- A measured and indicated resource of 3,164,000 tonnes at 2.21 g/t for 224,000 ounces at a 1.5 g/t cut was independently estimated by Golder Associates S.A. in April 2009 on Arenal deeps. Infill and extension drilling commenced in May 31, 2009 with 10 holes complete through to early August 2009. These holes have confirmed or improved the grade of the resource model with two holes ALDD103 and ALDD108 with 16.1 meters at 10.3 g/t and 26.2 meters at 13.76 g/t respectively.
- A farm-out agreement was signed with Olivut Resources to progress the Cinco Rios Diamond project.

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 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.

The Company plans to produce 60,000 ounces of gold for the 2009/2010 financial year at a cash cost per ounce of \$US 700 per ounce. Production for quarter 1 of fiscal 2010 is expected to be in the range of 13,500 to 14,500 ounces. While the company expects to have a cash balance of \$ 10,000 at the end of the 2010 fiscal year assuming a \$US 850 gold price, variations in cashflow and profit between quarters will occur as the mine plan is made up of different pits at different grades and stages of stripping.

4. **OVERVIEW OF FINANCIAL RESULTS**

4.1 **Profit (loss) before taxes**

For financial year ended May 31 2009, the Company reported a net loss before income tax of \$ 15,034 compared to a net profit before income tax of \$ 8,680 for the previous year.

Table 1 opposite shows the breakdown of the profit (loss) before taxes.

For the financial year ended May 31, 2009, San Gregorio's operating profit fell to \$ 12,022 compared to \$ 40,114 for year ended May 31, 2008.

Lower ounces produced and sold year on year, compounded with higher operating costs, significantly affected operating profit.

Operating costs are analyzed at section 4.4 of this MD&A. During the third and fourth quarter the Company began implementing an across-the-board cost reduction program announced in the second quarter. Although this exercise, including a 20% staff reduction has been concluded, emphasis on cost reduction remains and the company's cost structure will be adjusted to reflect future levels of production.

Table 1 – Profit (loss) breakdown

	2009	2008	Reference
	\$000's	\$000's	
Revenue	63,376	79,061	4.2
Operating expenses	(51,354)	(38,947)	4.4
Contribution margin	12,022	40,114	
Amortisation	(19,926)	(15,724)	4.5
Operating profit (loss)	(7,904)	24,390	
Fair value of derivatives	(464)	0	5.5
Exploration written off	(2,694)	(11,103)	5.3
Others	(3,972)	(4,607)	4.6
Profit (loss) before taxes	(15,034)	8,680	
Basic earnings (loss) per share	\$ (0.29)	\$ 0.16	
Diluted earnings (loss) per share	\$ (0.29)	\$ 0.16	

Depreciation and amortisation expense is discussed in section 4.5. Exploration expenditure written off and the fair valuation of financial derivatives are explained in sections 5.3 and 5.5 of this MD&A respectively.

4.2 Revenue

Revenues include gold and silver sales, as well as export cost refunds granted by the Government of Uruguay for exports as shown opposite in Table 2.

Table 2 - Sales composition

Total sales for the 2009 financial year were \$ 59,936 with 71,291 ounces of gold sold at an average price of \$ 841 per ounce. This compares to \$ 74,962 for the 2008 financial year with 92,105 ounces of gold sold at an average price of \$ 814 per ounce.

The decrease in sales from the 2008 financial year to the 2009 financial is due to lower production.

During August 2008, the Company signed a forward contract to deliver 45,000 ounces of gold at a forward price of \$

796.25 per ounce. During the current financial year, 42,423 ounces of gold were delivered into the forward contract representing 60% of the total ounces sold in the 2009 financial year. Ounces delivered into the forward contracts have an associated realized loss of \$ 2,494 when compared to the spot price on the day of delivery, representing a 4% discount on the value of ounces sold if they would have been sold at spot, as indicated in Table 3. No forward sales were entered into during financial year ended May 31, 2008.

2009	\$ 000's	Oz	\$ per oz
Gold	59,936	71,291	841
Silver	2,225	163,631	14
Export refund	1,215		
Total Sales	63,376		
2008	\$ 000's	Oz	\$ per oz
Gold	74,962	92,105	814
Silver	2,472	161,641	15
Export refund	1,627		
Total Sales	79,061		

The average spot price for the year was \$ 876 per ounce of gold (2008 - \$ 814). The impact of the forward sales contract was to reduce the average price by \$ 35 per ounce to \$ 841, which represented an increase of 3.3% on a year to year

Table 3 - Spot and forward sales

		2009	%	2008	%
Forward sales	oz	42,423	60	0	0
Spot sales	oz	28,868	40	92,105	100
Total sold	oz	71,291	100	92,105	100
Value at spot	\$	62,430	100	74,962	100
Total sales	\$	59,936	96	74,962	100
Realized loss	\$	(2,494)	4	0	0

basis. Details of derivatives strategy, fair value and the outstanding forward sales commitment is provided under section 5.5 of this MD&A.

Export refund is granted as a 2% of the FOB value of Doré exports. The reduction in the refund is then explained by the lower amounts exported.

4.3 Production statistics

During the financial year ended May 31, 2009, 12,823,000 tonnes were mined (2008: 13,254,000), including 10,874,000 tonnes of waste (2008: 11,458,000) and 1,949,000 tonnes of ore (2008: 1,796,000) with an average grade of 1.44 g/t (2008: 2.01 g/t), to provide a final strip ratio for the year of 5.6 tonnes of ore to 1 tonne of waste (2008: 6.4).

A total of 1,258,000 tonnes of ore, representing a 64% of ore mined, were produced from the Arenal deposit, where existing open pit resources were exhausted during April 2009. The remaining ore was produced from San Gregorio, Santa Teresa, Zapucay and other veins. Key production statistics are provided in Table 4.

Table 4 - Key production statistics

	2009	2008
Ore mined (tonnes)	1,949,103	1,796,608
Grade mined (g/t Au)	1.44	2.01
Ore processed (tonnes)	1,361,617	1,244,341
Grade processed (g/t Au)	1.72	2.45
Recovery	92.7%	92.3%
Gold produced (ounces)	70,147	90,668

During the fiscal year a negative reconciliation to the geological model in the western portion of the Arenal pit, where significant and unexpected variability of mineralization was encountered, resulted in a shortfall of high grade ore equivalent to 22,190 ounces. The shortfall was partially offset by production of 12,178 ounces from alternative sources at Veta Sur and Zapucay that were not included in the original mine plan and were rapidly developed and mined to compensate for the decline at Arenal.

Key production statistics are provided in Table 4. The lack of high grade ore during the current financial year in comparison to previous one explains the production fall. Table 5 shows the total ore production per source and table 6 shows production statistics by quarter.

**Table 5 -
Mine production source**

		Arenal pit	San Gregorio East pit	Santa Teresa Pit	Argentinita – Zapucay pit	Minor veins	Other development work (*)	Total
2009								
Waste (**)	tons (000's)	3,517	3,083	678	788	2,808	0	10,874
Ore	tons (000's)	1,256	209	105	200	179	0	1,949
Total mined	tons (000's)	4,773	3,292	783	988	2,987	0	12,823
Grade	Grams / tons	1.39	1.16	1.19	1.50	2.19	0.00	1.44
Strip ratio	Waste / Ore	2.8	14.8	6.5	3.9	15.7	0.0	5.6
2008								
Waste (**)	tons (000's)	7,219	1,076	165	0	1,718	1,280	11,458
Ore	tons (000's)	1,601	6	42	0	147	0	1,796
Total mined	tons (000's)	8,820	1,082	207	0	1,865	1,280	13,254
Grade	Grams / tons	1.96	1.38	0.77	0.00	2.92	0.00	2.01
Strip ratio	Waste / Ore	5.3	179	3.9	0.0	11.7	0.0	6.4

(*) Includes tonnes mined and moved for the river diversion to access Arenal pit and material moved for the construction of tailings dam facilities.

(**) Includes all development work to access ore body (pre-stripping activities).

Table 6 - Quarterly production statistics

2009	Q1	Q2	Q3	Q4	Total
Ore processed (tonnes)	335,832	303,740	332,704	389,341	1,361,617
Grade processed (g/t Au)	1.67	1.72	1.96	1.58	1.72
Recovery	91.4%	94.2%	92.5%	92.8%	92.7
Gold produced (ounces)	16,439	15,837	19,371	18,500	70,147
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)	18,513	26,317	25,150	20,688	90,668

4.4 Production costs

Total operating costs were \$ 51,354 for year ended May 31, 2009 compared to \$ 38,947 for the previous year. Cash cost per ounce was \$ 705 for the current fiscal year compared to \$ 413 for the previous year.

	\$US per ounce produced
Average cash costs for the 2008 fiscal year	413
Difference due to lower production for the year	121
Cost changes	171
Actual cash costs for the 12-month period ended May 31, 2009	705

Cash cost per ounce is a non-GAAP measure which is explained in reference 14 of this MD&A document. The lower production and the extraordinary price increase of consumables at the start of the fiscal year explain the difference in Cash costs between years. Following the production shortfall suffered at Arenal, the Company implemented cost saving measures, which included staff reductions. Over 90 employees, representing 20% of the workforce, were retrenched at the end of December 2008, 27 of whom were from Exploration. Mining was reduced from seven to six days and further reductions were made across all areas of the business. Exploration focused on near the mine projects. A number of supply contracts were renegotiated and alternative suppliers trialed.

Table 7 - Reconciliation of Operating costs to cash cost per ounce

	2009 \$ (000's)	2008 \$ (000's)
Operating expenses	51,354	38,947
<i>Less cost excluded for</i>		
Movement in non ore inventories	(851)	376
Other	(164)	(512)
Sub total	50,339	38,811
<i>Adjustments for</i>		
Deferred stripping included in depreciation (see 4.5)	2,349	2,479
Capital tax on production assets	301	254
Export refund and silver credit	(3,440)	(4,099)
Total cash costs	49,549	37,445
Gold production in ounces	70,147	90,668
Total cash costs per ounce	705	413

Table 8 – Operating Expenses

	\$ (000's)
Operating expenses 2008	38,947
Consumables	1,151
Spare parts	450
Salary increases	990
Staff reduction (5 months)	(630)
Increase electricity and fuel	1,121
Capitalization of 2008 costs (River diversion)	3,600
Inventory movement	4,985
Other	740
Operating expenses 2009	51,354

Table 7 reconciles operating costs to cash cost per ounce. Table 8 below explains the main differences year on year in Operating expenditure.

4.5 Amortization and depletion

Amortization and depletion expense was \$ 19,926 for financial year ended May 31, 2009 compared to \$ 15,724 for previous year. Depreciation includes straight line depreciation of fixed assets and the depreciation of mine properties based on contained ounces of gold in ore mined.

The initial investment in heavy mobile equipment to exploit the Arenal pit reached full depreciation during the current financial year. During April 2009 the Arenal pit was exhausted and all mine properties related to it were depreciated. To offset the shortfall in Arenal, other mine properties were accelerated. As a consequence, additional depreciation of mine properties that entered into production during the current financial year, in addition to a \$ 1,797 write off in San Gregorio, Santa Teresa and Sobresaliente explain the majority of the year on year depreciation difference.

Table 9 - Depreciation composition

	2009	2008
	\$000's	\$000's
Fixed Assets	5,903	5,638
Arenal mine properties	5,620	6,289
Other mine properties	5,119	938
Deferred stripping	2,349	2,479
Asset retirement obligation	935	380
Total depreciation	19,926	15,724

Table 9 provides depreciation composition by main assets.

Depreciation also includes previously accumulated deferred stripping costs. The Company has adopted EIC 160 under Canadian GAAP which requires that costs associated with the removal of overburden and other mine waste materials incurred in the production phase of operations be charged to income in the period they are incurred. The new policy was adopted effective June 1, 2007 and applied on a prospective basis. However, previously deferred waste removal costs for Arenal pit have been depreciated over the remaining reserves accessed by the stripping activities using the units of production method. As at May 31, 2009, with Arenal exhausted, no deferred stripping asset is being carried forward.

4.6 Other revenues and expenses

Other revenues and expenses totalled an expense of \$ 3,972 compared to an expense of \$ 4,607 for the previous year. Other revenues and expenses are comprehensive of corporate overhead costs, stock based compensation expense, net interest, capital tax, foreign exchange gains and losses and other items. A breakdown of such revenues and expenses is shown in Table 10.

Table 10 - Other revenues and expenses composition

Corporate overheads are comprehensive of corporate administration expenses in Canada, Uruguay and Barbados, including listing and regulatory expenses, director's fees, executive salaries and benefits and non-site administrative support functions. Reduction on a year on year basis is explained by the cost cutting program that has been implemented since the third quarter of the current financial

	2009	2008
	\$000's	\$000's
Corporate overheads	3,415	4,011
Stock based compensation	345	792
Foreign exchange loss (gain)	(48)	(238)
Net interest loss (gain)	(27)	(346)
Capital tax	394	594
Other gains	(107)	(206)
Total other revenues and costs	3,972	4,607

year. Corporate overheads have been reduced from \$ 1,033 in the first half of 2009 to \$ 1,482 in the second half of 2009.

For the accrual of vested options, an expense of \$ 345 was recorded compared to \$ 792 for previous year. More detailed information about stock options is provided under reference 5.4 of this MD&A document.

Net interest was affected negatively on a year on year comparison as a consequence of lower interest rates on bank deposits and commissions for cashing out tax credit certificates granted by the Uruguayan government as explained in detail in reference 5.2 of this MD&A document.

Capital tax is payable under Uruguayan tax law and applied at a 1.5% rate on the amounts of certain assets less certain specific liabilities measured at financial year end. An amount of \$ 394 was accrued for the financial year ended May 31, 2009 compared to an accrual of \$ 594 for the previous year. Main asset levied are inventories held for production. Though inventories have increased on a year on year basis, the \$ 200 tax reduction is mainly explained as a reduction of the tax burden suffered on mine properties and deferred exploration capitalized. In fact, while those assets were taxable for the financial year ended May 31, 2008, they were exempted in fiscal 2009 by a new tax law.

4.7 Income tax

An income tax gain of \$ 679 was recorded for the financial year ended May 31, 2009 compared to a loss of \$ 882 for the previous year. The detailed comparison is shown in Table 11.

The \$ 7,764 fiscal losses generated during the current financial year were applied to partially offset the Company's obligation to compute taxable income previously deferred for a consideration of \$ 9,656 related to tax benefits granted. In this case, the benefit was the deferral of taxable income up until 2010 of \$ 9,656. This obligation was recorded for previous years as a non current liability under "Long term tax payable" with a value of \$ 2,414 (\$ 9,656 of taxable income at a 25% tax rate), which is now reversed during the 2009 fiscal year.

The current income tax provided for 2009 fiscal year was reduced by \$ 1,112 as a result of an over provision of income tax in the prior year. The reason for the overprovision was that it did not include a tax investment benefit granted during the 2009 year that could be retrospectively applied to the 2008 tax calculation.

Regarding future income tax, the significant component of the Company's future income tax assets is shown in Table 12.

The property, plant and equipment and mine properties tax assets represent rights for future income tax deductions nominated in Uruguayan pesos and are subject to the appreciation or devaluation of the Uruguayan peso against the US dollar. A deferred tax loss of \$ 2,374 was recorded for the current financial year due to the devaluation of the value of future income tax deductions as a result of the appreciation of the US dollar against the Uruguayan peso (one US dollar equals UY\$ 23.4 at May 31, 2009 and UY\$ 19.7 at May 31, 2008). A \$ 2,988 gain was recorded in the previous financial year as the Uruguayan peso appreciated against the \$US during this year.

Table 11 - Income tax composition

	2009	2008
	\$000's	\$000's
Taxable income (loss) for the year	(7,764)	14,523
Long term tax liability	9,656	0
Taxable income	1,892	14,523
Tax rate	34%	34%
Income tax at Canadian rates	643	4,938
Effect lower tax rate in Uruguay (25% in 2009, 30% in 2008)	(170)	(581)
Current income tax loss for the year	473	4,357
Benefits not previously recognized	(1,112)	(487)
Current income tax charge (provision) recovery	(639)	3,870
Future tax effect	2,374	(2,988)
Long term tax liability reversal	(2,414)	0
Total future tax effect	(40)	(2,988)
Total income tax loss (provision) recovery	(679)	882

Table 12 - Future tax assets composition

	2009	2008
	\$000's	\$000's
Property, plant and equipment and mineral properties	2,830	4,789
Other assets and liabilities	171	586
Future income tax asset	3,001	5,375

5. FINANCIAL POSITION

5.1 Cash and other liquid resources

At May 31, 2009, UME had cash resources of \$9,496 compared to \$ 18,601 at 31 May 31, 2008. Cash decreased by \$ 9,105 during the financial year ended May 31, 2009 compared to an increase of \$ 4,623 for the previous year.

Cash flow from operations includes the results from the San Gregorio operations less the cost of general and administrative expenses, interest and income taxes. As shown in Table 13, cash flow generated from operations before working capital movements was \$ 9,404 for 2009 compared to \$ 33,065 for 2008. The decline in cash flow from operations was primarily a result of the decrease in gold produced and sold and the increase in operating expenses.

The company maintained an aggressive exploration program with \$ 10,106 (2008 - \$ 9,960) invested during 2009. Even considering this expenditure, the Company achieved its goal to finish its 2009 financial year with a cash balance in a range of \$ 8 to \$ 10 million. Given future decrease in production volumes, to maintain and generate cash, the Company plans to continue reducing costs, working capital and its exploration expenditure with priority given to near mine projects.

Table 13 - Cash increase (decrease)

	Reference	2009 \$000's	2008 \$000's
Operational cash flow before working capital investment		9,404	33,065
Working capital investment	5.2	(2,355)	(6,579)
Capital expenditure	5.3	(15,578)	(19,119)
Funding	5.4	(576)	(2,744)
Cash increase (decrease)		(9,105)	4,623

5.2 Working capital items

As shown in Table 14, investment in working capital decreased to \$ 2,355 in 2009 compared to \$ 6,579 in 2008 to provide net cash inflows from operations of \$ 7,049 and \$ 26,486 for the financial years 2009 and 2008 respectively.

Inventory of medium grade stockpiles increased by \$ 953 during 2009 compared to a \$ 4,713 increase in the previous year. A spare parts and consumables optimization programme has been put into place during the fourth quarter to adjust, during 2010, stocks levels to current and future production levels.

5.3 Capital expenditure

Capital expenditure on property, plant and equipment was \$ 5,472 for the financial year ended May 31, 2009 compared to \$ 9,159 for previous year. Payments include \$ 2,100 to settle debt for the acquisition of the 10% net profit interest over a key tenement within the

San Gregorio project, including the tenement in which the Arenal deposit is located. This represents the last payment for the acquisition of such interest with no debt outstanding. In addition \$ 3,372 was invested in property, plant and equipment, mainly in the acquisition of an additional used PC1250 excavator and a service truck for the mining operation, the acquisition of a hydrocone scats crusher, the completion of the tailings dam facilities and some major spare parts for mine heavy equipment to be replaced. Pre-stripping activities for San Gregorio East pit of \$ 246 are also included.

Exploration expenditure was \$ 10,106 for the financial year ended May 31, 2009 compared to \$ 9,960 for the previous year.

During the financial year ended May 31, 2009 \$ 2,694 of expenses were written off compared to \$ 11,103 in previous years. Of this total, \$ 992 are related to projects in the south of Uruguay for which the Company has released the mining titles or no substantive expenditure of further exploration and evaluation activities are budgeted or planned. Additionally, \$ 305 corresponding to expenses incurred during the year in the evaluation for the acquisition of a property outside of Uruguay was also written off as those expenses are not sustained by a mining title. An extra \$1,224 was written off in the Isla Cristalina Belt mainly related to Rincon de Los Castillos and Tito Lopez projects as no resource has been defined after drilling those targets.

Capitalized exploration and evaluation expenditure for \$ 3,923 were reclassified as an intangible asset under Mineral properties as there were related to areas in which a mineral resource was determined, mainly Santa Teresa, Zapucay, Argentinita, Castrillon and Sobresaliente pits and minor veins. This compares to \$ 6,225 for the previous year.

Details of work performed in the areas are included in the Company's exploration report for the year ended May 31, 2009.

Table 14 - Working capital investment

	2009	2008
	\$000's	\$000's
Cash flow from Operations before working capital investment	9,404	33,065
Warehouse inventories	(790)	(3,178)
Stockpile	(953)	(4,713)
Other production inventories	850	(374)
Supplier's net of prepayments	(1,373)	2,221
Tax credits net of tax liabilities	(89)	(535)
Total working capital investment	(2, 355)	(6,579)
Cash flow from Operations after working capital investment	7,049	26,486

Table 15 – Exploration expenditure by areas

Project Area	Deferred exploration May 31, 2008	Expenditure 2008	Indirect costs distribution	Transfer to Mine Properties	Write off	Deferred exploration May 31, 2009
Isla Cristalina Belt	1,968	5,959	157	(3,923)	(1,224)	2,937
South Uruguay	4,019	2,248	60	0	(992)	5,335
Lascano	2,961	1,173	31	0	0	4,165
Diamonds	0	47	2	0	(49)	0
Outside Uruguay	0	297	8	0	(305)	0
Indirect overheads	0	382	(258)	0	(124)	0
Total	8,948	10,106	0	(3,923)	(2,694)	12,437

Table 16 below reconciles the cost base of property, plant and equipment, mineral properties and exploration to cash invested according to cashflow statements.

Table 16 - Capital expenditure reconciliation between cost base and cash invested exploration

	2009 (\$000's)	2008 (\$000's)	Description for 2009
PP&E – Ending book cost base	31,035	28,015	
Mineral properties – Ending book cost base	31,075	26,906	
PP&E – Initial book's cost base	(28,015)	(25,411)	
Mineral properties – Initial book cost base	(26,906)	(17,210)	
Cost base difference	7,189	12,300	
Payment of last instalment for the for purchase of Arenal Net Profit Interest Asset	2,100	1,050	Payment of liability associated with prior purchase
Sales of PP&E and others	106	2,034	
Reclassification from Deferred exploration	(3,923)	(6,225)	
Cash invested in PP&E and Mineral properties	5,472	9,159	
Deferred exploration - Ending book cost base	12,437	8,948	
Deferred exploration – Initial book cost base	(8,948)	(16,316)	
Cost base difference	3,489	(7,368)	
Reclassification to mine properties	3,923	6,225	
Write off	2,694	11,103	
Cash invested in exploration	10,106	9,960	

5.4 Funding

During the financial year ended May 31, 2009, no employee options were converted into shares compared to cash inflows for \$ 592 from the exercise of 635,000 employee share options for the previous year.

As at May 31, 2009, the Company had 3,172,250 outstanding stock options at a weighted average exercise price of CDN\$ 2.98, of which 1,818,750 were vested at a weighted average exercise price of CDN\$ 3.57. The decline in the Company's stock price left all outstanding employee options "out of the money". This compares to the previous year in which 2,859,000 options remained outstanding at a weighted average exercise price of CDN\$ 3.99 out of which 1,216,000 were vested at a weighted average exercise price of CDN\$ 4.30.

During the current financial year no dividends were declared or paid compared to cash dividend of CDN\$ 0.02 per common share paid in the first half of the 2008 financial year for a total consideration of \$ 2,742. 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 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 first quarter of financial year ended May 31, 2009, 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 finally repurchased for a total of \$807 and the repurchase plan was closed.

The Company also had 20,000 non transferable warrants issued in accordance with an agreement with Delcosur to farm into certain properties in the south of Uruguay. The warrants, issued at an exercise price of CDN\$ 4.56 expired in March 2009 unexercised. There are no outstanding warrants.

As at August 13, 2009, the Company had 48,667,068 common shares issued, and 3,289,750 stock options exercisable up to April 14, 2014 at prices between CDN\$ 0.38 and CDN\$ 5.50.

5.5 Financial instruments

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

Given the volatility in the gold price, in August 2008, UME committed to forward sell 45,000 ounces of gold representing approximately 70% of forecast production for the last nine months of the fiscal year at a forward price of \$US 796.25 per ounce to ensure enough cash inflows to finance exploration's programs in main targets. As at May 31, 2009, 42,423 ounces of gold were delivered into the hedge and another 2,577 ounces committed are still outstanding.

UME does not apply hedge accounting which would allow deferring gains and losses on the hedging derivatives to the same period or periods in which the underlying exposure being hedged is brought to account. The fair value of the outstanding hedge is then recognized in the measurement of the

Company's net income in the period in which the hedge was committed. The outstanding contracts are recorded at their fair value calculated using the spot price at period end based on the London Bullion Market Association (LBME) P.M. fix price (\$ 975.50 per ounce) and expected future prices and liabilities. As a result, a loss of \$ 464 is shown to reflect the fair value of the hedge commitment outstanding.

5.6 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	37	37	0	0	0	0
Asset Retirement Obligations	2,862	68	461	116	1,129	1,088
Total	2,899	105	461	116	1,129	1,088

Commitments derived from exploration farm in and out and acquisitions agreements are disclosed in Note 7 of our Financial Statements

On May 22, 2007 the Company executed with Banco Santander (Uruguay) S.A. (formerly 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 2009, \$ 37 was drawn for vehicle leasing and \$ 801 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 HSBC Bank (Uruguay) S.A. The company elected to replace the previous guarantee issued by Macquarie Bank with a new guarantee issued by HSBC Bank (Uruguay), S.A. when the guarantee was due for renewal in February 2009..

A forward sale commitment of 2,577 ounces of gold at a forward price of \$ 796.25 per ounce are outstanding at May 31, 2009 as indicated in reference 5.5 of this MD&A document.

6. QUARTERLY RESULTS

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
	Aug	Nov	Feb	May	Aug	Nov	Feb	May
	2007	2007	2008	2008	2008	2008	2009	2009
Gold sold (ounces)	18,987	26,461	23,746	22,911	18,182	13,754	20,002	19,353
Average sales price (\$/oz)	661	761	888	926	895	796	822	841
Cash operating cost (\$/oz)	425	374	342	540	792	811	547	702
Operating revenues	13,253	21,180	22,220	22,408	17,721	11,659	17,125	16,871
Operating expenses	(7,870)	(9,800)	(9,244)	(12,033)	(14,803)	(12,351)	(11,071)	(13,129)
Contribution Margin	5,383	11,380	12,976	10,375	2,918	(692)	6,054	3,742
Administration expenses	(1,203)	(1,469)	(1,333)	(1,392)	(1,234)	(1,315)	(860)	(745)
Amortization and depletion	(2,865)	(4,397)	(3,596)	(4,866)	(3,000)	(5,971)	(4,600)	(6,355)
Fair value of derivatives	0	0	0	0	(1,528)	733	(901)	1,232
Exploration write off	0	0	0	(11,103)	0	0	(775)	(1,919)
Interest expense and debt accretion	(62)	(135)	(124)	(50)	(75)	(63)	(80)	(25)
Foreign exchange difference	(42)	92	4	184	(152)	176	13	11
Interest earned and other income (expenses)	196	246	269	212	192	85	32	68
Income Tax	(183)	(1,348)	(2,254)	2,903	25	(860)	19	1,495
Net income (loss) for the period	1,224	4,369	5,942	(3,737)	(2,854)	(7,907)	(1,098)	(2,496)
Basic earnings per share	0.03	0.09	0.12	(0.08)	(0.06)	(0.16)	(0.02)	(0.05)
Cash flow from (used in) operations	4,161	8,782	4,416	9,129	1,152	(1,954)	4,091	3,760
Cash from (used for) financing	547	(1,825)	(316)	(1,152)	(448)	(47)	(46)	(35)
Cash invested	(7,055)	(3,847)	(3,899)	(4,318)	(6,954)	(3,911)	(2,433)	(2,280)
Cash on hand	11,631	14,741	14,942	18,601	12,351	6,439	8,051	9,496
Total Assets	76,869	82,418	87,164	83,359	79,155	71,655	70,742	63,516
Shareholders Equity	61,252	65,783	70,720	66,960	63,742	56,084	54,936	52,549

7. 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 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.

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 favorable terms.

UME currently has one producing asset, the San Gregorio project. As more of its projects mature, the Board expects that more projects will develop into producing assets. In common with all mining operations, there is uncertainty, and therefore risk, associated with operating parameters and costs. Whilst costs can be budgeted with a reasonable degree of confidence, operating parameters can be difficult to predict and are often affected by factors outside the Group's control. In addition, other risks,

including cuts in electricity supply, fuel supply shortages, industrial accidents, technical failures, 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 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 are 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.

8. RELATED PARTY TRANSACTIONS

The Company has no related party transactions.

9. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Economic lives of mining assets and recoverable value

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

These calculations rely on estimated reserves and/or resources, estimated future commodity price and production cost;

Inventory

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

Asset retirement obligation

The fair value of the liability is determined based on the net present value of estimated future costs estimated by management based on feasibility and engineering studies on a site by site basis. While care was taken to estimate the 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.

10. CHANGES IN ACCOUNTING POLICIES

Effective June 1, 2008 the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031 "Inventories" was issued and provides guidance on the determination of cost and its subsequent

recognition as an expense, including any write-down 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. Adoption of this standard did not have any material effect on the financial statements.

In January 2009, the CICA issued EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the entity to consider its own credit risk as well as the credit risk of its counterparties when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the Company's 2009 fiscal year, commencing January 1, 2009 and is required to be applied retrospectively without restatement to prior periods. The adoption of this pronouncement did not have a material impact on the valuation of the Company's financial assets or financial liabilities.

In March 2009, the CICA issued EIC 174 "Mining Exploration Costs". This abstract discusses the analysis recommended to be performed to determine if there has been an impairment of mineral exploration properties. The Company considered the recommendations discussed in the Abstract effective for fiscal periods ending after March 31, 2009 when testing for impairment of mineral properties in the period and no impairment adjustments were required.

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

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

under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the President and CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

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

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

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

12. 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.

13. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board (“AcSB”) announced that changeover for publicly-listed companies to adopt IFRS, replacing Canada’s own GAAP, will be effective for interim and annual financial statements of the Company relating to fiscal years beginning on or after

June 1, 2012. The transition date of June 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended May 31, 2011.

During 2010, the Company plans to undertake an IFRS diagnostic study with a view to assessing the impact of the transition to IFRS on the Company's accounting policies and to establish a project plan to implement IFRS. A number of key accounting areas where IFRS differs from current accounting policies and accounting alternatives in those and other key accounting areas will be identified and reviewed. Over the course of 2011, the Company will evaluate the alternatives and analyze the impact upon the implementation of IFRS.

The IFRS diagnostic study will also identify key system and business process areas that will be addressed as part of the conversion project. These include: the development of an accounting policy manual that defines the Company's IFRS accounting policies; identification of the significant financial data required from the Company's financial systems in order to define the transition adjustments and produce IFRS financial statements on an on-going basis; possible system modifications; and maintenance of effective disclosure controls and controls over financial reporting throughout the IFRS transition period.

14. 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.