URUGUAY MINERAL EXPLORATION

Management Discussion & Analysis
for the period ended August 31, 2009

Prepared as at: October 13, 2009

Management's discussion and analysis ("MD&A") provides a discussion of Uruguay Mineral Exploration Inc ("the Company") financial and operating results for the quarter ended August 31, 2009 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 the Company for the three month period ended August 31, 2009. 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 2009 and 2008 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 13, 2009.

1. HIGHLIGHTS

Financial highlights for the three-months ended August 31, 2009 include:

- UME produced 13,173 ounces of gold for the quarter ended August 31, 2009. Ore processed for the quarter was 384,195 tonnes at a gold grade of 1.15 g/t with recovery averaging 92.9%.
- Production was 2.3% below the bottom end of guidance on production for the quarter of 13,500 ounces due to minor changes in the extraction sequence.
- Production for the quarter was consistent with the company's mine plan that showed lower grades and higher stripping than the average for the year.
- Further retrenchment of employees occurred during the quarter to reduce exploration expenditure in the south and streamlining mining operations. While cash costs for the quarter were high at $US 880 per ounce, they were in line with management's expectations and reflect a mine plan with higher levels of waste and low grade ore during the quarter.
- The realized gold price was $ 912 per ounce for the quarter. The remaining 2,577 ounces of hedging were delivered during the quarter and the Company now has no hedging as at August 31, 2009
- Cashflow from operations for the quarter was $ 30, and the Company's cash position at the end of the quarter was $ 8,158.
- Definition drilling continued for the Arenal Deeps deposit. The program to date has generally confirmed or increased the thickness and grade as compared to the April 2009 resource model. The most significant result was reported from hole ALDD108 with 26.2 meters at 13.76 g/t Au. The drilling campaign will continue January 2010. A final resource estimate will be completed and published by March 2010.
- Other exploration efforts for the quarter were focused on near mine targets, mainly at Peru South, Picaflor and Veta Sur 2 and 3.

2. 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, optimization 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 to four year timeframe.

On October 5, 2009 UME announced it entered into a letter of intent with Fortune Valley Resources ("Fortune Valley") pursuant to which UME proposes to acquire all of the issued and outstanding common shares of Fortune Valley.

UME confirms its production forecast for the 2010 fiscal year of 60,000 ounces.

When compared to Q1, cash cost per ounce for the remainder of fiscal 2010 are forecast to benefit from higher gold grades and lower stripping activities. A decree by the Uruguayan Government to revoke indirect tax refunds calculated as 2% of exports for gold mining, effective 1 Sept 2009, is expected to increase costs for the remainder of the financial year by approximately $US 15 per ounce. The recent appreciation of the Uruguayan Peso against the US dollar from 24 to below 21 would, if sustained, also increase costs. The Company is, at the same time, and following the cost reduction program initiated in the second half of fiscal 2009, working on several measures to further reduce costs (eg. sale of current office building in Montevideo and move to other premises). Reflecting the reduction in tax benefits, UME expects cash costs in the range of $US 715 per ounce for the 2010 fiscal year compared to the original forecast of $ US 700 per ounce.

The company maintains the expectation for a cash balance of $ 10,000 at the end of the 2010 fiscal year assuming a $ 850 per ounce 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.

3. OVERVIEW OF FINANCIAL RESULTS

3.1 Loss before taxes

During the quarter, the Company reported a net loss before taxes of $ 2,166 or $ 0.04 per share, compared to a net loss of $ 2,879 or $ 0.06 per share for the first quarter of the previous year.

In comparison to the first quarter for the previous year, San Gregorio's contribution margin fell from $ 2,918 to $ 637.

Table 1 opposite shows the breakdown of the loss before taxes.

The net loss increased as a result of lower head grade. Operating costs are analyzed at section 3.4 of this MD&A.

The fair value of derivatives and Others are explained in sections 3.2 and 3.6 of this MD&A respectively. Amortisation expense is discussed in section 3.5.

Table 1 - Loss breakdown

	Q1 09/10	**Q1 08/09**	Reference
	$000's	**$000's**	
Revenue	12,498	17,721	3.2
Operating expenses	(11,861)	(14,803)	3.4
Contribution margin	637	2,918	
Amortization	(2,593)	(3,000)	3.5
Operating loss	(1,956)	(82)	
Fair value of derivatives	464	(1,528)	3.2
Others	(674)	(1,269)	3.6
Loss before taxes	(2,166)	(2,879)	
Basic earnings (loss) per share	$ (0.04)	$ (0.06)	

3.2 Operating revenues

Revenues include gold and silver sales, as well as export related tax refunds as shown opposite in Table 2.

Total sales of gold for the quarter were $ 12,028 compared to $ 16,271 in the previous year.

The average gold price for the quarter increased to $ 912 from $ 895 in the first quarter of the previous year.

Table 2 - Sales composition

Q1 – 09/10	$ 000's	Oz	$ per oz
Gold	12,028	13,188	912
Silver	204	14,539	14
Export refund	266		
Total Sales	**12,498**		
Q1 – 08/09	$ 000's	Oz	$ per oz
Gold	16,271	18,182	895
Silver	1,084	66,607	16
Export refund	366		
Total Sales	**17,721**		

The decrease in sales on a quarter to quarter basis is due to lower production of gold. While during the first quarter of the previous year the Company's main pit 'El Arenal´ and other high grade veins were on production, the current quarter reflects a mine plan with higher levels of waste and low grade ore. 'El Arenal' pit also provided higher silver contents.

The Export tax refunds are granted as a 2% of the FOB value of Doré exports, and therefore directly proportional to the sales amounts. At the end of August, the Uruguayan Government published a decree by the Uruguayan Government to revoke these indirect tax refunds for gold mining, effective 1 Sept 2009.

Table 3 - Spot and forward sales

		Q1 09/10	%	Q1 08/09	%
Spot sales	oz	10,611	80	18,182	0
Forward sales	oz	2,577	20	0	100
Total sold	**oz**	**13,188**	**100**	**18,182**	**100**
Value at spot	$	12,383	100	16,271	100
Total sales	$	12,028	97	16,271	100
Realized loss	**$**	**355**	**3**	**0**	**0**

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 quarter, the forward contract was cancelled by delivering the outstanding amount of 2,577 ounces. Those forward sales represented 20% of the total ounces sold during the quarter, with an associated realized loss of $ 355 when compared to the spot price, or a 3% discount on the value of ounces sold. There were no forward sales during the first quarter of last year. The Company has currently no forward or hedge obligations outstanding nor does plan to enter into any derivatives

3.3 Production statistics

During the quarter 3,244,201 tonnes were mined (Q1 08/09 – 3,194,958 tonnes), including 2,847,149 tonnes of waste (Q1 08/09 – 2,767,193) and 397,052 tonnes of ore (Q1 08/09 – 427,765) with an average grade of 1.00 g/t (Q1 08/09 – 1.43 g/t), to provide a final strip ratio for the quarter of 7.2 tonnes of ore to 1 tone of waste (Q1 08/09 – 6.5). Ore mined is sourced from different veins and pits at a different stripping stage. Table 4 shows the total ore production per source.

Table 4 - Mine production source		Arenal pit	San Gregorio pit	Santa Teresa Pit	Argentinita – Zapucay pit	Minor veins	Total
Q1 09/10							
Waste	tons (000's)	0	770	831	511	735	2,847
Ore	tons (000's)	0	182	115	91	9	397
Total mined	tons (000's)	0	952	946	602	744	3,244
Grade	Grams / tons	0.00	1.03	0.92	1.00	1.54	1.00
Strip ratio	Waste / Ore	0.0	4.2	7.2	5.6	81.8	7.2
Q1 08/09							
Waste	tons (000's)	1,828	841	0	0	98	2,767
Ore	tons (000's)	353	41	0	0	34	428
Total mined	tons (000's)	2,181	882	0.00	0.00	132	3,195
Grade	Grams / tons	1.27	1.83	0.0	0.0	2.53	1.43
Strip ratio	Waste / Ore	5.2	20.5	0.0	0.0	2.9	6.5

During the quarter 384,195 tonnes of ore (Q1 08/09 – 335,832) were fed into the plant at an average grade of 1.15 g/t (Q1 08/09 – 1.67 g/t) to produce 13,173 ounces of gold (Q1 08/09 – 16,439) with 92.9% recovery (Q1 08/09 – 91.4%).

Production was 2.3% below the bottom end of guidance on production for the quarter of 13,500 ounces due to minor changes in the extraction sequence.

Quarterly production statistics are provided in table 5 below.

Table 5 - Quarterly production statistics

	Q2 Nov 07	**Q3 Feb 08**	**Q4 May 08**	**Q1 Aug 08**	**Q2 Nov 08**	**Q3 Feb 09**	**Q4 May 09**	**Q1 Aug 09**
Ore processed (tonnes)	293,657	313,340	310,370	335,832	303,740	332,704	389,341	384,195
Grade processed (g/t Au)	3.00	2.71	2.25	1.67	1.72	1.96	1.58	1.15
Recovery (%)	93.0	92.2	92.3	91.4	94.2	92.5	92.8%	92.9
Gold produced (ounces)	26,317	25,150	20,688	16,439	15,837	19.371	18,500	13,173

UME confirms its production forecast for the 2010 fiscal year of 60,000 ounces.

3.4 Production costs

Total operating costs were $ 11,861 for the quarter equivalent to cash cost per ounce of $ 880 compared to $ 14,803 or cash cost per ounce of $ 792 for the corresponding quarter of previous year.

Table 6 provides the reconciliation of operating expenses to cash cost per ounce.

Table 6 - Cash cost per ounce calculation

	Qtr 1 Aug 2009	Qtr 1 Aug 2008
Operating expenses (000)	11,861	14,803
Other (000) (reference 10)	(269)	(1,783)
Total cash costs (000)	11,592	13,020
Gold produced (ounces)	13,173	16,439
Total Cash costs ($/oz)	880	792

Cash cost is a non-GAAP measure which is explained in reference 10 of this MD&A document.

The Company continues implementing cost reduction measures, including staff reductions. New commercial terms are being renegotiated with contractors. A further retrenchment of some 40 staff has taken place during the quarter to reduce exploration employees in the south and further streamlining of operations. That follows the 90 positions that were reduced in fiscal 2009.

3.5 Amortization and depreciation

Amortization expense was $ 2,593 for the quarter compared to $ 3,000 for the corresponding quarter of the 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. Table 7 provides a breakdown of depreciation by type of assets.

Table 7 - Depreciation breakdown

	Q1 09/10 $000's	Q1 08/09 $000's
Fixed Assets	1,282	1,516
Mine properties	1,311	1,000
Deferred stripping	0	355
Asset retirement obligation	0	129
Total depreciation	**2,593**	**3,000**

Depreciation of fixed assets includes the depreciation of the heavy equipment and major spare parts. Additionally it includes the depreciation of the tailings dam facility and other mine infrastructure. Other mine properties include the San Gregorio East pre stripping activities and capitalized exploration expenditure for San Gregorio East and Zapucay/Argentinita pits. The deferred stripping for last year relates to $ 355 deferred waste removal costs for Arenal pit.

3.6 Other revenues and expenses

Other revenues and expenses for the quarter totalled an expense of $ 674 compared to $ 1,269 last year. A breakdown of Other revenues and expenses is shown in Table 8.

Table 8 - Other revenues and expenses composition

	Q1 09/10 $000's	Q2 08/09 $000's
Corporate overheads	674	1,093
Stock based compensation	94	37
Foreign exchange loss (gain)	17	152
Net interest loss (gain)	71	(5)
Capital tax	70	105
Other gains	(252)	(113)
Total other revenues and costs	**674**	**1,269**

Corporate overheads comprise of corporate administration expenses in Canada, Uruguay and Barbados, including listing and regulatory expenses, investor's relationship fees, director's fees, executive corporate salaries and benefits, corporate stationary and non-site administrative support functions. Reduction on a quarter to quarter basis reflects the cost cutting program that has been implemented since the third quarter of the previous financial year.

For the accrual of stock options compensation expense, net of reversals for remuneration accrued for non-vested forfeited options of employees leaving the company, an expense of $ 94 was recorded compared to $ 37 in previous year. More detailed information about stock options is provided under reference 4.5 of this MD&A document.

Net interest was affected negatively on a quarter to quarter basis as a consequence of lower interest earned on bank deposits and commissions for cashing out tax credit certificates granted by the Uruguayan government as explained in detail in reference 4.2 of this MD&A document.

During the quarter, the Company disposed several surplus old assets for a total consideration of $ 264 and an associated book cost of $ 53, including an old idled Longyear 44 drill rig, a Komatsu WA 600 loader, and three old light trucks.

4. FINANCIAL POSITION

4.1 Cash and other liquid resources

Cash decreased from $ 9,496 at the beginning of the quarter to $ 8,158 at August 31, 2009.

Cash flow from operations includes the result from the San Gregorio operation less the cost of general and administrative expenses, interest and income taxes. As shown in Table 9, during the quarter cash flow from operations before working capital movements was $ 30 compared to a generation of $ 1,729 for the same quarter of the previous financial year. This lower cash generation is explained by the Quarter's development activities that will benefit production in the following quarters.

Table 9 - Cash increase (decrease)

	Ref.	2009 $000's	2008 $000's
Cash flow from operations before working capital investment		30	1,729
Working capital investment	3.2	2,629	(577)
Exploration investment	3.3	(1,680)	(3,081)
Site capital expenditure	3.3	(2,296)	(3,873)
Funding	3.4	(21)	(448)
Cash decrease		**(1,338)**	**(6,250)**

The exploration budget is concentrated near the mine at $ 1,680 for the quarter compared to $ 3,081 in the corresponding quarter of the previous year.

4.2 Working capital items

As shown in Table 10, working capital decreased during the quarter $ 2,629 compared to an increase of $ 577 in the corresponding quarter of the previous financial year. The Company continues its effort to reduce working capital.

During the quarter the company reduced over 90,000 tons of high and medium grade stockpiles.

Table 10 - Working capital movements

	Q1 09/10 $000's	Q1 08/09 $000's
Cash flow from operations before working capital investment	(1,252)	1,729
Warehouse inventories	417	(675)
Stockpile	1,296	670
Other production inventories	(307)	737
Supplier's net of prepayments	1,860	(1,085)
Severance payments provisioned	(250)	0
Tax credits and other debtors	(387)	(224)
Total working capital movements	2,629	(577)
Cashflow from operations after working capital investment	1,377	1,152

The Company is negotiating with its main suppliers to improve credit terms, minimize prepayments and therefore improve its cash position.

4.4 Capital expenditure

Capital expenditure on property, plant and equipment during the quarter was $ 2,296 after netting off $ 264 for the sale of surplus assets compared to $ 3,873 for the corresponding quarter of the previous year. Main investments during the quarter were tailings dam facilities, major components and prestrip costs for Veta Sur.

Exploration expenditure during the quarter was $ 1,680 compared to $ 3,081 for the corresponding quarter of the previous year reflecting a reduction in exploration budget. Details of work performed are included in the Company's exploration report for the quarter ended August 31, 2009. Table 11 below summarizes expenditure on exploration by main areas during the quarter.

(Thousands of United States Dollars, except where indicated)

Table 11 – Exploration Expenditure

Project Area	Deferred exploration Balance May 2009	Expenditure Movement Q1 09/10	Indirect costs distribution	Transfer to Mine Properties	Deferred exploration Balance August 2009
Isla Cristalina Belt	2,937	1,270	44	(152)	4,099
South Uruguay	5,335	192	7	0	5,534
Lascano	4,165	20	1	0	4,186
Diamonds	0	6	0	0	6
Outside Uruguay	0	62	2	0	64
Severance payments	0	76	0	0	76
Indirect overheads	0	54	(54)	0	0
Total	12,437	1,680	0	(152)	13,965

During the quarter, most of the exploration budget was allocated to the Isla Cristalina Belt, including $ 842 in the drilling for a resource definition of Arenal underground. Transfer to Mine properties relate to resource definition of pits with a mineral resource determined in Zapucay, Argentinita and Sobresaliente pits.

4.5 Funding

During the quarter no employee stock options were granted or converted into shares. Outstanding employee options are currently “out of the money”.

As at August 31, 2009, the Company had 3,038,750 outstanding stock options (May 31, 2009 – 3,172,250) at a weighted average exercise price of CDN$ 3.00 (May 31, 2009 – 2.98), of which 1,727,583 (May 31, 2009 – 1,818,750) were vested at a weighted average exercise price of CDN$ 3.63 (May 31, 2009 – 3.57).

Except for a short term liability for leasing facilities of $ 16, the Company is debt-free, and no warrants or convertible notes are outstanding.

4.6 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 at a forward price of $US 796.25 per ounce to ensure enough cash inflows to finance exploration’s programs in main targets. During this quarter, the remainder 2,577 ounces committed in this contract was delivered with no outstanding commitment for the future. As at August 31, 2009, the company has no derivatives obligations.

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.

(Thousands of United States Dollars, except where indicated)

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. As a result, a gain of $ 464 is shown in this quarter..

4.7 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
Finance Lease	16	16	-	-	-
Asset Retirement Obligations	2,894	535	118	1,141	1,100
Total	2,910	551	118	1,141	1,100

Commitments derived from exploration farm in and out and acquisition agreements are disclosed in notes to our annual audited consolidated financial statements. No new commitments have been agreed during the current quarter.

On May 22, 2007 the Company executed with Banco Santander (Uruguay) S.A. 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 2009, $ 16 was drawn for vehicle leasing and $ 852 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 Uruguayan local branch.

(Thousands of United States Dollars, except where indicated)

5 . QUARTERLY RESULTS

	Qtr 2 Nov 2007	Qtr 3 Feb 2008	Qtr 4 May 2008	Qtr 1 Aug 2008	Qtr 2 Nov 2008	Qtr 3 Feb 2009	Qtr 4 May 2009	Qtr 1 Aug 2009
Gold sold (ounces)	26,461	23,746	22,911	18,182	13,754	20,002	19,353	13,188
Average sales price ($/oz)	761	888	926	895	796	822	841	912
Cash operating cost ($/oz) (reference 10)	374	342	540	792	811	547	702	880
Operating revenues	21,180	22,220	22,408	17,721	11,659	17,125	16,871	12,498
Operating expenses	(9,800)	(9,244)	(12,033)	(14,803)	(12,351)	(11,071)	(13,129)	(11,861)
Contribution Margin	11,380	12,976	10,375	2,918	(692)	6,054	3,742	637
Administration expenses	(1,469)	(1,333)	(1,392)	(1,234)	(1,315)	(860)	(745)	(838)
Amortization and depletion	(4,397)	(3,596)	(4,866)	(3,000)	(5,971)	(4,600)	(6,355)	(2,593)
Fair value of derivatives	0	0	0	(1,528)	733	(901)	1,232	464
Exploration write off	0	0	(11,103)	0	0	(775)	(1,919)	0
Interest expense and debt accretion	(135)	(124)	(50)	(75)	(63)	(80)	(25)	(70)
Foreign exchange difference	92	4	184	(152)	176	13	11	(17)
Interest earned and other income (expenses)	246	269	212	192	85	32	68	251
Income Tax	(1,348)	(2,254)	2,903	25	(860)	19	1,495	8
Net income (loss) for the period	4,369	5,942	(3,737)	(2,854)	(7,907)	(1,098)	(2,496)	(2,158)
Basic earnings per share	0.09	0.12	(0.08)	(0.06)	(0.16)	(0.02)	(0.05)	(0.08)
Cash flow from (used in) operations	8,782	4,416	9,129	1,152	(1,954)	4,091	3,760	2,659
Cash from (used for) financing	(1,825)	(316)	(1,152)	(448)	(47)	(46)	(35)	(21)
Cash invested	(3,847)	(3,899)	(4,318)	(6,954)	(3,911)	(2,433)	(2,280)	(3,976)
Cash on hand	14,741	14,942	18,601	12,351	6,439	8,051	9,496	8,158
Total Assets	82,418	87,164	83,359	79,155	71,655	70,742	63,516	62,665
Shareholders Equity	65,783	70,720	66,960	63,742	56,084	54,936	52,549	50,485

6. 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, labour disputes and environmental hazards are also beyond the Group's control.

The nature of resource and reserve quantification studies means that there can be no guarantee that estimates of quantities and grades of minerals will be available to extract. The 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.

7. 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. The discounted value of these asset retirement obligations was as at August 31, 2009 $ 2,894 and is included in the mine closure and site restoration liability. While care was taken to estimate the 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.

8. CHANGES IN ACCOUNTING POLICIES

None.

9. DISCLOSURE CONTROLS AND PROCEEDURES 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.

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 net 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 amortization, corporate costs and financing costs are not included. Cash costs are total cash costs divided by gold ounces produced.

Cash cost per ounce calculation

	Qtr 2 Nov-07	Qtr 3 Feb-08	Qtr 4 May-08	Qtr 1 Aug 2008	Qtr 2 Nov-08	Qtr 3 Feb-09	Qtr 4 May-09	Qtr 1 Aug 2009
Operating expenses (000)	9,800	9,244	12,033	14,803	12,351	11,071	13,129	11,861
Other (000)	43	-643	-835	-1,783	493	-475	-142	-269
Total cash costs (000)	9,843	8,601	11,198	13,020	12,844	10,596	12,987	11,592
Gold produced (ounces)	26,317	25,150	20,737	16,439	15,837	19,371	18,500	13,173
Total Cash costs ($/oz)	374	342	540	792	811	547	702	880

11. 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.

12. 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.