



- **Management Discussion & Analysis for the period ended August 31, 2004**

Effective Date: October 27, 2004

Note: The attached documents may contain certain forward-looking statements within the meaning of Section 21E of the United States Securities Exchange Act 1934, as amended. Although Uruguay Mineral Exploration Inc. has taken all care in preparing the attached document, all statements included herein, other than statements of historical fact, including without limitation exploration results, resource estimates, projected programs and statements of objectives involve certain risks and uncertainties. Important factors that could cause actual results to differ materially from those in the forward looking statements contained herein, include among others, weather, access to property, drill availability, assay laboratory performance and availability of technical personnel.

MANAGEMENT'S DISCUSSION & ANALYSIS

All amounts expressed in United States currency

Management's discussion and analysis ("MD&A") provides a discussion of the Company's financial and operating results for the quarter ended 31 August 2004, with comparisons to previous quarters. This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes.

FINANCIAL RESULTS

Highlights for the quarter ended August 31, 2004 include:

- Gold production of 15,352 ounces at an average cash cost of \$US 295 per ounce.
- Net profit of \$ 192,111 or \$ 0.004 per share after expensing \$US 408,128 for stock based compensation.
- Cash flow from operations of \$ 1,241,254 before non cash working capital balances.
- Revenues were \$ 6,077,656 and the average price of gold sold was \$ 396 per ounce.

Metal Production

At San Gregorio 304,551 tonnes of ore were processed at an average grade of 1.65 g/t to produce 15,352 ounces. Throughput averaged 101,517 tonnes per month, an increase in comparison to previous quarters due to metallurgical improvements. Plant throughput is now planned to remain at these levels. The grade of ore processed increased in comparison to the May 2004 quarter due to a higher contribution of Zapuchay ore to the plant feed. Production statistics for the prior 4 quarters are summarized below.

	Quarter 2 *	Quarter 3	Quarter 4	Total for	Quarter 1
	Nov 2003	Feb 2004	May 2004	2004 Year	August 2004
Ore Tonnes Mined	176,189	133,645	170,682	480,516	150,139
Grade Tonnes Mined (g/t Au)	2.19	2.09	1.73	2.00	2.00
Ore Tonnes Processed	173,623	237,163	257,535	668,321	304,551
Grade Tonnes Processed (g/t Au)	1.97	1.80	1.56	1.75	1.65
Recovery	91.2%	94.2%	95.0%	93.6%	95.1%
Gold produced (ounces)	10,017	12,951	12,301	35,269	15,352

* The San Gregorio operation was acquired with effect from 1 October 2003

Production Costs

Mine site operating costs were \$ 4.53 million in the August 2004 quarter with an average cash cost of production of \$ 295 per ounce. This compares to \$ 4.45 million and cash operating costs of \$ 365 per ounce in the May 2004 quarter. The lower cost is attributed to the increased throughput at margin cost and the higher average grade of material processed for the quarter.

Other Revenues and Expenses

Stock based compensation expense for the quarter was \$408,128 representing the fair value of 476,000 employee options issued at an exercise prices of \$C 3.00 to \$C 3.50 per share. A stock based finance fee of \$ 188,000 was incurred during the quarter. The unrealized fair value loss on gold derivative transactions in the amount of \$ 210,000 was booked during the quarter.

FINANCIAL POSITION

Cash and other liquid resources

At August 31, 2004, UME had cash resources of \$ 4.2 million and cash held in escrow of \$ 2.65 million compared to \$4.97 million and cash held in escrow of \$ 1.5 million at 31 May 2004. Cash flow from operations was \$ 0.39 million after non-cash working capital items consumed \$ 0.85 million. Gold on hand increased during the quarter and consumable stock levels were increased reflecting increased throughput and generally higher stock levels.

Capital Expenditure

Expenditure on property plant and equipment for the quarter was \$ 1,807,081 and included \$ 1.36 million on new mine equipment and \$ 0.27 million of tailings dam expansion. Exploration expenditure for the quarter was \$ 0.6 million, with \$ 0.5 million spent on Arenal.

Financing

During the quarter the Company entered into a secured \$2,000,000 interim working capital facility with Macquarie Bank Limited. Subsequently to period end, the Company commenced negotiations and received an offer to replace the working capital facility with a secured financing facility of \$6,500,000. This facility will provide \$1,500,000 for environmental bonds and \$5,000,000 for working capital needs. The Company is currently negotiating these terms and anticipates finalizing an agreement by November 30, 2004. At 31 August 2004 \$ 1,000,000 of the short term facility was available to be used.

During the quarter 8,000 warrants and 107,500 employee options were converted into shares to provide proceeds of \$ 48,822. At August 31, 2004 UME had 2,872,000 warrants, 3,073,500 stock options and 42,980,913 common shares outstanding.

OUTLOOK

The Company received environmental approval to mine at Arenal on 29 September 2004 and commenced pre-strip in early October 2004. Arenal production levels will increase during the November quarter and will be capable of providing all ore requirements by December 2004. Mining operations at Zapucay will stop once this occurs. The new mining fleet is expected to be fully operational by 30 November 2004.

FINANCIAL INSTRUMENTS

As a requirement of financing arrangements with Macquarie Bank the Company has entered into gold derivatives contracts during and subsequent to the current quarter. In conjunction with the interim loan facility the Company entered into a contract to forward sell 10,000 ounces of gold on a spot deferred basis at \$388.50 per ounce. The fair value of these financial derivatives at August 31 2004 was \$ 210,000. Subsequent to period end, the Company replaced the 10,000 ounces of spot deferred gold contracts. The Company purchased 50,000 put options at a strike price of \$ 400 per ounce and 50,000 call options at a strike price of \$ 436 per ounce. Put and call options are equally matched with deliveries of 2,500 ounces per month commencing November 2004.

RELATED PARTY TRANSACTIONS

The Company has minimal related party transactions. These are disclosed in Note 6 to the interim financial statements

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

During the quarter a letter of credit for \$ 1,587,312 was provided to the supplier of equipment referred to at note 4 (b). This letter of credit was reduced to \$ 1,165,356 by August 31, 2004. The letter of credit is supported by a pledge over assets.

Other than this, there has been no material change to contractual obligations and commitments since 31 May 2004.

ACCOUNTING POLICIES

The Company has adopted the hedge accounting standard for the transactions entered into during the period as detailed at Note 1(d) to the interim financial statements.

CRITICAL ACCOUNTING ESTIMATES

There has been no material change to critical accounting estimates since 31 May 2004.

QUARTERLY RESULTS

<i>(in thousands of US\$ except where otherwise noted) 2004</i> QUARTERLY REVIEW	Quarter 1 August 2004	Quarter 4 May 2004	Quarter 3 February 2004	Quarter 2 November 2003	Quarter 1 August 2003	Quarter 4 May 2003	Quarter 3 February 2003	Quarter 2 November 2002
Sales								
Gold sold (ounces)	14,782	12,977	14,683	6,541	-	-	-	-
Average sales price (\$/ounce)	396	399	407	360	-	-	-	-
Cash operating cost (\$/ounce)	295	362	348	297	-	-	-	-
	\$	\$	\$	\$	\$	\$	\$	\$
Operating revenues	6,077,656	5,372,235	6,104,319	2,512,376	-	-	-	-
Operating expenses	(4,535,254)	(4,458,978)	(4,509,920)	(1,784,165)	-	-	-	-
Operating income	1,542,402	913,257	1,594,399	728,211	-	-	-	-
Administration	(341,844)	(253,555)	(301,823)	(365,858)	(35,716)	(134,575)	(16,348)	(113,416)
Depreciation and amortization	(242,869)	(225,663)	(237,661)	(183,820)	(69)	(93)	(88)	(86)
Derivatives, fair value	(210,000)							
Interest and financing costs	(195,882)	(34,744)	(27,522)	(14,945)	-	-	-	-
Stock-based compensation	(408,128)	(309,746)	-		(510,954)	-	-	-
Other	(48,432)	(210,638)	(9,524)	39,541	-	-	-	-
Net income (loss) for the period	192,111	(121,089)	1,017,869	203,129	(546,739)	(134,668)	(16,436)	(113,502)
Basic earnings (loss) per share	.004	(.003)	.024	.005	(.015)	(0.004)	(0.00)	(.003)
Cash flow from (used in) operations	387,719	1,396,030	(449,196)	238,340	(13,321)	(45,730)	18,772	103,277
Cash from financing activities	1,304,348	1,339,828	2,574,678	5,362,374	-	-	172,601	385
Cash invested	(2,461,871)	(3,291,014)	(289,679)	(2,599,445)	(498,408)	(510,497)	(396,542)	(274,201)
Cash on hand	4,200,876	4,970,680	5,415,836	3,580,033	1,085,439	1,597,168	2,153,395	2,358,564
Total Assets	28,648,352	25,844,073	24,804,630	21,326,936	9,771,719	9,772,862	9,791,927	9,538,135
Shareholders Equity	21,198,465	20,361,258	18,755,301	15,067,087	9,674,718	9,710,503	9,757,190	9,567,995