



- **Management Discussion & Analysis for the period ended November 30, 2004**

Effective Date: January 26, 2005

Uruguay Mineral Exploration Inc.
Management's Discussion and Analysis
November 30, 2004

Management's discussion and analysis ("MD&A") provides a discussion of the Company's material financial and operating results for the three and six months ending on 30 November 2004, with comparisons to previous quarters. This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes and represents management's knowledge thereof. The Effective Date of this MD&A is January 26, 2005 and all amounts are expressed in United States currency unless otherwise stated.

FINANCIAL RESULTS

For the three months to 30 November, 2004 UME incurred a net loss of \$2,540,982 equal to \$0.058 per share compared to a profit of \$203,129 or \$0.005 per share for the second quarter of 2004. Following a profit of \$ 192,111 in the first quarter the year to date loss is \$ 2,348,871. Results for the current quarter were affected by:

- Higher operating costs associated with expensing the development costs at the new Arenal mine;
- Unrealized losses of \$1,444,000 arising from "mark to market" on gold derivatives; and
- Compensation "expense" of \$347,376 associated with executive stock options issued and vesting during the quarter.

It should be noted that neither of the latter two items, which must be expensed under accounting guidelines, are cash items. In particular, the "mark-to-market" on the gold derivatives was done at \$451/oz.

San Gregorio production at 15,934 ounces of gold was the highest quarterly production since UME acquired the operation in October 2003. Production was 582 oz higher than the previous quarter (15,352 oz) and 5,335 oz higher than the corresponding quarter of the prior year that contained only 2 months of production.

Sales revenues for the quarter was \$ 6,328,501, a significant increase over the same period in the prior year which included 2 months of operations and reduced sales due to the recent acquisition of the mine. 14,396 ounces of gold were sold during the quarter at an average price of \$ 422 per ounce. No deliveries into hedge contracts occurred in the quarter.

The contribution margin of \$ 722,991, was similar to the corresponding quarter of the prior year (\$728,221) but considerably lower when compared to the August quarter figure of \$1,542,402. Higher current quarter costs reflect the detrimental impact of expensing Arenal development costs, higher maintenance costs associated with the old mining fleet, a major mill shutdown during the period, and increases in the cost of energy. Unit cash operating costs for the November quarter were \$372 per oz, up significantly when compared to August 2004 quarter figure (\$295).

Amortisation and depletion expense increased to \$660,190 in the November quarter as a consequence of transferring historical exploration expenditure relating to the Minas de Corrales Gold Project to Mine Properties. Amortising of these costs commenced during the quarter.

In summary, while the quarterly results are affected by abnormal costs (most of the costs associated with the development of Arenal were expensed during this quarter), management is confident that gold production and cost performance remains on track with projections. This is borne out by December figures (post-period end) which reflect the continued development of Arenal (mill head grade in December was 2.08 g/t Au, and production was a new record 6,539 oz), and show that operating costs have peaked and are starting to fall.

Full production at Arenal is expected to be achieved by the end of February 2005.

OPERATIONS

Mill throughput for the November quarter was 307,993 tonnes, 1.13% higher than the previous quarter (August 2004), reflecting higher plant availability, itself the result of improved plant maintenance performance. Mill feed for the quarter was sourced principally from Arenal (44%), Zapucay (29%), and low-grade stockpile material (26%). The balance (1%) came from San Gregorio (Ombú) (1%), where waste development took place principally to produce material for the tailings dam expansion.

The ore derived from Arenal was largely lower grade material from the eastern margin of the pit, since access to the richer, western side of the pit was constrained by civil works associated with the flood barrier to the Corrales River. As a result, the mill head grade for the quarter was 1.70 g/t Au, up 3% over the previous quarter. Mill recovery averaged 94.5%, a slight decline (0.63%) over the previous quarter, reflecting the impact of the near-surface material being sourced from the upper levels of Arenal. This effect was transitory, and gold recoveries from treating Arenal ore post the reporting period are above 95%.

Production statistics for the prior 5 quarters are summarized below.

	Quarter 2 *	Quarter 3	Quarter 4	Quarter 1	Quarter 2	FYTD
	Nov 2003	Feb 2004	May 2004	Aug 2004	Nov 2004	04/05
Ore Tonnes Processed	173,623	237,163	257,535	304,551	307,993	612,544
Grade (g/t Au)	1.97	1.80	1.56	1.65	1.70	1.67
Recovery	91.2%	94.2%	95.0%	95.1%	94.5%	94.8%
Gold produced (ounces)	10,017	12,951	12,301	15,352	15,934	31,286

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

Graphical presentation of this production information can be found at UME's website www.uruguayminerals.com.

PRODUCTION COSTS

Mine operating costs were \$ 5,605,510 for the second quarter with an average cash cost of production of \$ 374 per ounce. This compares to \$ 4,535,254 and cash operating costs of \$ 295 per ounce in the previous quarter.

The major reason for the cost increase in the current quarter is that all development costs for the Arenal mine have been expensed, rather than capitalized. These costs included site preparation, pre-stripping, and other civil works. These additional activities, which were undertaken in tightly constrained working areas, resulted in lower productivity and higher total and unit costs. These costs were expensed as management took the view that the mining activity was of an ongoing nature, and therefore the cost impact will obviously mitigate as mining operations ramp up, and development activities scale down. Higher costs were also experienced as a consequence of maintaining the old fleet during the phasing in of the new Komatsu equipment. These higher costs will reduce with the transition to the new mining fleet, which is scheduled to be complete by the end of January.

OTHER REVENUES AND EXPENSES

Stock based compensation expense for the quarter was \$347,376 which represents the fair value of 200,000 employee options issued at an exercise prices of \$C 5.40 per share. The corresponding quarter of 2004 reported no stock based compensation expense.

The full stock compensation expense for employee options is recognized in the same period as the options are issued as these options vest on issue. This charge to current earnings is high, and results from an assessment calculated using the Black and Scholes model. This calculation, whilst an industry standard is subjective, does not necessarily represent the fair market value of these options, and is a non-cash item. The Company will continue to issue stock options, as they are an important factor in attracting and retaining the key employees needed as the company enters an important growth phase. The use of options in the remuneration package conserves important cash, and provides a benefit to employees that only crystallizes when share price growth occurs.

In the current quarter an unrealized non-cash fair value expense of \$1,444,000 was recorded on financial derivatives bringing the year to date expense to \$1,654,000. This loss represents the present value of closing out all future gold put and call options on 30 November 2004. The loss has occurred as a result of the increase in gold price to \$451 at 30 November 2004.

General and administrative expenses increased to \$ 700,833, reflecting the strengthening of the Company's executive group, the allocation of most indirect administrative costs to G&A rather than to indirect exploration and development costs as was the practice in previous years, and higher Uruguayan capital and financing taxes relating to the San Gregorio operation.

FINANCIAL POSITION

Cash and other liquid resources

At November 30, 2004, UME had cash resources of \$2,983,768 including cash held in escrow of \$1,500,000 compared to \$4,970,680 million and cash held in escrow of \$ 1,500,000 at 31 May 2004. Net cash used in operating activities during the quarter was \$ 89,416 bringing to \$1,151,838 the cash generated by the operations in the six months year-to-date.

Non-cash working capital balances increased by \$31,690 during the quarter, lifting the six month figure to \$885,302. This mainly reflects investment in additional in-process stocks.

Capital Expenditure

Investment in property plant and equipment was \$ 6,914,831 for the quarter (\$ 8,747,476 YTD). The majority of this was for new mining equipment. After offsetting deferred equipment financing against property plant and equipment purchases cash invested in the new mining fleet was \$ 2,236,295 for the quarter and \$ 3,761,139 year to date. Exploration expenditure for the quarter was \$ 612,647 and was mainly applied to in-fill and resource definition drilling at Arenal.

Financing

On December 8, 2004 the Company entered into a secured financing facility of \$6,500,000 replacing an interim working capital facility of \$3,000,000 with Macquarie Bank Limited. This facility provides \$1,500,000 for environmental bonds and \$5,000,000 for working capital needs. On 28 December, 2004 the environmental bond facility was drawn, releasing \$1,500,000 of cash held in escrow.

Deferred payment terms for the acquisition of the Komatsu mining fleet required an initial payment of 25% on delivery with the remaining 75% paid in twelve monthly installments equal to 15% of the total, and a final balloon payment of 60% twelve months from the date that equipment was assembled and delivered ready to work.

During the six months to 30 November 386,500 employee options were converted into shares to provide proceeds of \$ 229,631. At November 30, 2004 UME had 2,872,000 warrants, 2,994,500 stock options and 43,259,913 common shares outstanding.

Subsequent to quarter end 473,000 warrants and 110,000 options have been exercised providing \$CAD 1,932,750 in proceeds.

EXPLORATION AND DEVELOPMENT

Summary

Exploration activities for the November quarter continued to concentrate on the infill drill evaluation and definition of the Arenal ore body. This work included obtaining hydrological and geotechnical information, as well as sterilization of areas designated for waste dumps and topsoil stockpiles.

Definition drilling at Arenal is being undertaken to RL zero, a vertical depth of 130 metres below the highest point of the mineralisation outcrop. When completed, this information will be used to model the Phase two expansion of the Arenal pit. Mining commenced on the Phase one pit in mid-October 2004. A step-out

drilling program was also commenced to the east of the Arenal pit, testing the eastern strike extension of the main mineralisation.

RC drilling commenced at Santa Ernestina, New Australia, and a new near-mine target, Santa Maria, and Soil sampling programs were undertaken at Curtume, New Australia South, Santa Teresa North and Santa Maria.

Elsewhere, work including soil sampling and mapping continued on a number of targets on the Isla Patrulla and Mal Abrigo project areas with some early stratigraphic drilling being undertaken.

Air photo structural interpretation and stream geochemical surveys have continued on the Cinco Rios diamond project.

Minas De Corrales Gold Project

Arenal.

RC and DDH drilling has continued on this project with the objective of final definition of the mineralized boundaries for the Phase 1 Pit. Thirty (30) RC holes (3116 metres), and thirteen (13) diamond drill holes (2410 metres) were completed during the reporting period.

The main focus of the Arenal drilling was to obtain geotechnical and hydrological information to permit engineering studies, as well as sterilization of waste dump locations. Late in the quarter, the Company resumed step out drilling along strike and down dip of the mineralized sequence, and a number of the reverse circulation drill holes were deepened using diamond "tails" to test for a zone of deeper mineralization below the main zone. Due to the close spaced nature of the drilling, and the fact that much of the drilling is for purposes other than resource assessment, (e.g. sterilisation and geotechnical holes), hole-by-hole results from Arenal will no longer be released.

It is intended to recalculate the Arenal resource once the Phase 2 pit design has been completed.

Santa Ernestina

A first pass drilling program comprising 31 short RC drill holes (1481 metres) was undertaken on the historic Santa Ernestina Mine property. The target was beneath and along strike from the old workings. The results of this program revealed only narrow, low grade intersections, inconsistent with Santa Ernestina's historic role as the second largest mine in the district after San Gregorio. Further work is required to establish the main mineralisation controls, prior to embarking on a second phase program.

Santa Maria

Following a reinterpretation of the existing data base in the vicinity of the Santa Teresa pits, a parallel mineralized structure has been identified approximately 500 metres north of the Santa Teresa West pit. A strong gold in soil anomaly approximately 500 metres long has been defined, coincident with this structure. An exploration program comprising trenching, RAB/RC and diamond drilling has commenced on this target. A very limited previous drilling program returned a best intersection of 14 metres @ 2.17 g/t Au (from 6 metres in hole RCSM 02 (525858 east, 6507469 north)). The best intersection returned to date from the current program is 18 metres @ 2.84 g/t Au from 58 metres in hole RCSM 15 (525850 east, 6507413 north). These preliminary results are considered very encouraging and the exploration program is continuing.

Isla Patrulla/Texas Project (Dom Feliciano Mobile Belt)

The ground follow up of targets identified in this very large area by the airborne geophysics program completed in 2003 continued. The geophysical targets revealed by this work were correlated with stream sediment geochemical anomalies obtained from the Company's proprietary data-base, and 14 targets were developed.

The categorized target areas are located near to, and north of, the township of Isla Patrulla and are as follows:

Texas, Puntas del Yermal, La Calera, Cañada de la Yerba, Yatay, Yatay South, Quebrada Sur, Cuidade, Espinoza, IP Town, La Tapera, La Patrulla, El Bragado, and Portera Negra.

Work in the November quarter concentrated on ranking these targets, and the following areas are the subject of current activities.

Initial RAB drilling has been completed at the **Cuidade** Prospect, where a coincident Cu-Au anomaly over 800m long x 100m wide has been defined by soil sampling. Five holes were completed (total: 120m) and the results showed that the system has a very high background in gold. The best result to date is in CDB 5 which returned 15.3m @ 104ppb in altered leucogranites adjacent to a mafic contact: Rock chip sampling has disclosed quartz veining containing up to 6 g/t Au. Follow up drilling is planned.

Infill soil sampling at **Yatay Sur** has further defined a low grade gold anomaly of over 1 km long by 100m wide. Mineralisation is associated with prominent siliceous zones within a mafic and ultramafic package, which elsewhere is nickel-anomalous. A RAB drilling program is planned.

At the "**IP Town**" project, 5 RAB holes were completed on targets defined by soil sampling. Results from the first two holes indicate the background gold values in the ultramafic/mafic sequence are 20 to 30 ppb. The best result returned was 1.7m @ 327ppb Au in hole IPB 3.

The **Espinosa** project is located 2 km to the northeast of the township of Isla Patrulla. Results from soil sampling (on a 400m by 25m grid) have revealed a gold anomaly up to 800ppb (0.8 g/t Au) over an area of 1 km in length by 200m wide. This anomaly appears to be related to a ferruginous gossan which outcrops along to a structural boundary separating a carbonate and shale sequence. Systematic rock chip sampling of this gossan has returned strongly anomalous gold values up to 7.9g/t Au.

Two RAB drill holes have been completed on this target, returning 12 metres of 2.4 g/t Au and 12 metres of 1.5 g/t Au respectively. Follow up diamond drilling has commenced.

The La Calera and Texas copper/gold targets are awaiting further geophysical surveys, which are currently being planned.

Work on the Yatay nickel project has been suspended, pending the results of the country-wide nickel survey, which is discussed below.

Florida Greenstone Belt

Mal Abrigo Nickel Project

Disseminated sulphide zones have been detected within this large gabbro/norite complex with the principal sulphide being pyrite with minor pyrrhotite and chalcopyrite.

Regional prospecting in the area has located additional disseminated nickel and copper sulphides in the nearby Cerro Negro complex, which it is believed is an extension of the Mal Abrigo Complex. Soil and rock chip samples have been collected over what are considered to be the more prospective areas within this new area. Assay results are awaited.

Further geophysical surveys will be undertaken to establish if there are massive sulphide targets associated with the identified anomalies.

Chamizo

Detailed mapping of this gold target has been completed and an interpretation from the combined geochemistry, structural air photo interpretation and geology indicates that gold mineralization is structurally controlled with higher grade zones being located at the intersections of two major shear trends. This model will be tested with a new drill program when equipment is available. An earlier drilling program returned a best intersection of 5.85 metres at 2.83 g/t Au.

Cinco Rios Diamonds

A second phase stream sediment sampling program was completed in the period under review, in drainage catchments where previous surveys had recovered positive indicator mineral assemblages or micro diamonds. One hundred and seventeen samples were taken in this latest phase.

The samples were observed at the Diotech laboratory in Perth Western Australia, and 54 samples were positive for diamond indicator minerals (principally picro-ilmenites and pyrope garnets). A representative selection of these indicators are currently being analysed by micro probe in Australia.

Regional Nickel Survey

A reconnaissance team has been surveying certain areas in Uruguay as a follow up of nickel-group anomalies disclosed within the Company's proprietary geochemical database. Sources for approximately 60% of the combined nickel and chromium anomalies and known ultramafic sequences identified by the Company's geologists have been subjected to first pass examination, and the program is scheduled to be completed in the first half of 2005.

OUTLOOK

The rapid development of Arenal will continue in the February quarter with ore presentation and grade expected to meet projected schedules. Costs will decrease as the effects of the replacement mining fleet flow through, and full production is achieved from Arenal. A mineral reserve covering the next 3 years of production is expected to be published by mid year. Near mine drilling will continue at current rates in the second half and focus on resource expansion at Arenal, Ombú and Santa Teresa/Santa Maria.

Additional drilling equipment is being purchased to increase exploration flexibility for both near mine and regional exploration programs.

FINANCIAL INSTRUMENTS

During the period the Company used financial derivatives to mitigate its exposure to the gold price for approximately 30% of its production over the next 18 months. This protection protects the repayment of debt over this period and at November 30 consisted of 47,500 ounces of gold put contracts at a forward price of \$US400 per ounce. To cover the cost of the put option contracts, the company sold 47,500 call options at a forward price of \$US436 per ounce. The put and call options are matched in timing and will be delivered into on a monthly basis at a rate of 2,500 ounces per month. The pricing of the put and call structure reflects the close-out of 10,000 spot deferred contracts at a value of \$389 per ounce during the quarter. At 30 November the company also had one spot deferred contract for 2,500 ounces at \$US436 per ounce that was delivered into in December 2004 when the spot price was under \$US436.

The accounting policy adopted by the group is to recognize the fair value of these financial instruments at the end of each quarter. This resulted in an unrealized loss of \$1,654,000 on the full 47,500 ounces outstanding at the end of the period and does not reflect the current or future cash impact of these financial derivatives.

RELATED PARTY TRANSACTIONS

During the quarter employee loans of \$39,497 were repaid in full.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has entered into consultancy and other agreements with various parties associated with listing on the London Stock Exchange. Commitments under these agreements are approximately \$ 750,000.

CRITICAL ACCOUNTING ESTIMATES

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

CICA Accounting Guideline 13 "Hedging Relationships" has strict guidelines on documenting the use of and effectiveness of financial derivatives. To maintain a consistent policy for the treatment of financial derivatives all contracts have been marked to market with the fair value of the derivative instruments recognized as unrealized gains and losses in the statement of operations and deficit.

QUARTERLY RESULTS

2004 QUARTERLY REVIEW <i>(in US\$000 except where otherwise noted)</i>	Quarter 2 November 2004	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
Sales								
Gold sold (ounces)	14,397	14,782	12,977	14,683	6,541	-	-	-
Average sales price (\$/ounce)	422	396	399	407	360	-	-	-
	\$	\$	\$	\$	\$	\$	\$	\$
Operating revenues	6,328,501	6,077,656	5,372,235	6,104,319	2,512,376	-	-	-
Operating expenses	(5,605,510)	(4,535,254)	(4,458,978)	(4,509,920)	(1,784,165)	-	-	-
Operating income	722,991	1,542,402	913,257	1,594,399	728,211	-	-	-
Administration	(700,833)	(341,844)	(253,555)	(301,823)	(365,858)	(35,716)	(134,575)	(16,348)
Depreciation and amortization	(660,190)	(242,869)	(225,663)	(237,661)	(183,820)	(69)	(93)	(88)
Interest and financing costs	(70,922)	(195,882)	(34,744)	(27,522)	(14,945)	-	-	-
Stock-based compensation	(347,376)	(408,128)	(309,746)	-	-	(510,954)	-	-
Fair value adjustment of derivatives	(1,444,000)	(210,000)	-	-	-	-	-	-
Other	(40,652)	48,432	(210,638)	(9,524)	39,541	-	-	-
Net income (loss) for the period	(2,540,982)	192,111	(121,089)	1,017,869	203,129	(546,739)	(134,668)	(16,436)
Basic earnings (loss) per share	(0.058)	.004	(.003)	.024	.005	(.015)	(0.004)	(0.00)
Cash flow from (used in) operations	(121,106)	387,719	1,396,030	(449,196)	(268,335)	(13,321)	(45,730)	18,772
Cash from financing activities	2,258,172	1,048,822	1,339,828	2,574,678	5,362,374	-	-	172,601
Cash invested	(3,354,174)	(2,206,345)	(3,291,014)	(289,679)	(2,599,445)	(498,408)	(510,497)	(396,542)
Cash on hand	2,983,768	4,200,876	4,970,680	5,415,836	3,580,033	1,085,439	1,597,168	2,153,395
Total Assets	35,541,340	28,648,352	25,994,073	24,804,630	21,326,936	9,771,719	9,772,862	9,791,927
Shareholders Equity	19,208,514	21,198,465	20,361,258	18,755,301	15,067,087	9,674,718	9,710,503	9,757,190

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 depreciation and amortization.

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

	Three months ending November 30 2004	Three months ending August 30 2004	Six months ending November 30 2004
Operating expenses	5,605,510	4,535,254	10,140,764
Other	317,470	(12,584)	304,886
Total cash costs	5,922,980	4,522,670	10,445,650
Gold production in ounces	15,934	15,352	31,286
Total cash costs per ounce	372	295	334

Forward Looking Statements

This document 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 documents, 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.