



- **Chairman's Report**
- **Interim Financial Statements for the period ended February 28, 2005**

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 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.

## **Report from the Chairman**

The February quarter was another satisfying quarter as we saw a continuation of the Company's progress "up the production ladder". Our quarterly production of 18,896 ounces was not only a record for the company, but showed that we are well on the way to our targeted annualised 100,000 ounce production level, which we expect to achieve shortly. This was particularly heartening as we are still "renovating" the plant as we go, which necessarily results in a loss of productive time and additional cost.

Our goal is to bring the plant to an "as-new" condition suitable for another 10 years life, and we hope to achieve this during this calendar year. In the meantime the improvements that we have made to the plant have resulted in throughput already exceeding design capacity by approximately 20%.

The grade from the Arenal mine continues to improve in line with expectations as we open up deeper mining faces (the grade of ore in the Arenal Pit improves with depth). The average grade for the quarter was 2.24 g/t, still below the Arenal Phase One pit average of 2.96 g/t Au.

Unit cash operating cost of US\$263 per ounce (compared with US\$374/oz in the previous quarter) shows that operating costs are moving in the right direction as the operational benefits of the new fleet start to flow through. The rate of fall is pleasing, especially when the rise in fuel costs (gas oil - 20% and electricity - 30%) experienced during the year to date is taken into account. Additional unit cost reductions are expected to occur as grade improves further and as maintenance and infrastructure improvements are completed.

It is pleasing to note that the Contribution Margin (Revenue – Operating Costs) approached US\$1 million per month during the quarter, again improving nicely and in line with projections.

As I mentioned in my last communication with you, focus is being returned to exploration now that the operational side of the business is being bedded down. Unfortunately exploration is not a business of incremental gains – it is largely one of several steps back, followed (hopefully) by a giant leap forward. Work is continuing steadily on Isla Patrulla (Espinosa in particular) and Mal Abrigo in preparation for making such a leap. The rate of progress on both these projects will accelerate when a planned airborne geophysics survey is completed later this year.

In addition, negotiations are almost finalised for an airborne gravity/magnetics survey of Lascano, also scheduled for the second half of the year.

Meanwhile, exploration around the mine is continuing to yield promising results. As you will see in the Exploration and Development section of the MD&A attached, the Arenal mineralised structure has been traced over 1200 metres so far, giving plenty of scope to increase the size of the Arenal resource. Elsewhere, work around the Santa Maria and Ombú pits has confirmed that there will be a resource upgrade in and around the San Gregorio mine when the resource assessment is undertaken in mid-year.

The current status of our exploration program and the results from the Minas de Corrales Gold Project are described in more details in the Management Discussion and Analysis which accompany the attached Financial Statement.

It is also noteworthy that we had 2,640,000 warrants mature in April 2005, which I am pleased to advise have nearly all been exercised. I expect the remainder will be exercised in the new few days, meaning that Can \$9,900,000 in additional working capital will have been injected into the Company, funds which will be used to retire debt and accelerate exploration progress. With the conversion of these warrants and a further 75,500 stock options subsequent to year end, the Company will have 46,092,413 shares issued, plus 250,000 warrants and 2,784,000 options outstanding.

On behalf of Chris and the rest of the UME/UGY team I would like to thank shareholders for their continuing support in making this Company such a success, and ensure you that we are “leaving no stone unturned” in our search for further success.

Tony Shearer, Chairman

14 April 2005

**Uruguay Mineral Exploration Inc.**  
**Consolidated Interim Financial Statements**  
**For the nine month period ended**  
**February 28, 2005**  
(Unaudited - prepared by management)  
(United States Dollars)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended February 28 2005.

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**Uruguay Mineral Exploration Inc.**  
**Consolidated Balance Sheets**  
(Unaudited - prepared by management)

(United States Dollars)	As at February 28, 2005	As at May 31, 2004 (Audited)	As at February 28, 2004
	\$	\$	\$
<b>Assets</b>			
Current			
Cash and cash equivalents (Note 9)	2,897,419	4,970,680	5,415,836
Accounts receivable	2,666,815	1,442,021	2,241,406
Inventories	6,016,047	4,087,809	4,655,234
Prepaid expenses and other	864,321	668,526	807,143
	<u>12,444,602</u>	<u>11,169,036</u>	<u>13,119,619</u>
Property, plant and equipment (Note 2)	20,145,099	5,034,228	2,416,700
Deferred exploration and development costs (Note 3)	4,536,843	9,665,431	9,142,961
Other assets and deferred costs (Note 4)	340,319	125,378	125,304
	<u>37,466,863</u>	<u>25,994,073</u>	<u>24,804,584</u>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	4,424,761	3,570,273	3,039,313
Debt (Note 5)	4,000,000	-	-
Unrealized fair value of derivatives (Note 10)	823,000	-	-
Deferred payment on equipment (Note 5)	4,626,947	-	-
Deferred payment on acquisition	-	700,000	2,000,000
	<u>13,874,708</u>	<u>4,270,273</u>	<u>5,039,313</u>
Asset retirement obligation	1,394,542	1,362,542	990,016
Total liabilities	<u>15,269,250</u>	<u>5,632,815</u>	<u>6,029,329</u>
<b>Shareholders' Equity</b>			
Equity instruments (Note 7)	23,251,208	20,817,115	19,492,207
Contributed surplus	1,636,277	880,700	570,954
Subscriptions receivable	-	-	(14,920)
Cumulative translation adjustment	(18,620)	(18,620)	(76,138)
Deficit	(2,671,252)	(1,317,937)	(1,196,848)
Total Shareholders Equity	<u>22,197,613</u>	<u>20,361,258</u>	<u>18,775,255</u>
Total Liabilities and Shareholders Equity	<u>37,466,863</u>	<u>25,994,073</u>	<u>24,804,584</u>
Commitments and contingencies (Note 12)			

The accompanying notes are an integral part of these consolidated interim financial statements

**Uruguay Mineral Exploration Inc.**  
**Consolidated Statements of Operations and Deficit**  
**(Unaudited - prepared by management)**

(United States Dollars)	Three months ended February 28		Nine months ended February 28	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	\$	\$	\$	\$
<b>Sales</b>	7,873,791	6,104,319	20,279,948	8,616,695
<b>Operating expenses</b>	5,094,869	4,509,920	15,235,633	6,294,085
<b>Contribution margin</b>	<u>2,778,922</u>	<u>1,594,399</u>	<u>5,044,315</u>	<u>2,322,610</u>
<b>Other expenses</b>				
Amortization, depletion and accretion	1,178,667	237,661	2,081,726	421,550
Compensation expense – stock based	-	-	755,504	510,954
Fair value adjustment for derivatives	(831,000)	-	823,000	-
General and administrative	1,347,705	301,823	2,390,382	703,397
Interest and financing fees	98,808	27,522	365,612	42,467
	<u>1,794,180</u>	<u>567,006</u>	<u>6,416,224</u>	<u>1,678,368</u>
<b>Income (loss) before other items and taxes</b>	984,742	1,027,393	(1,371,909)	644,242
<b>Other items</b>				
Interest and other income	3,325	2,094	32,394	3,856
Foreign exchange gain	7,489	(11,618)	(13,800)	26,161
<b>Income (loss) before taxes</b>	<u>995,556</u>	<u>1,017,869</u>	<u>(1,353,315)</u>	<u>674,259</u>
Income taxes	-	-	-	-
<b>Net income (loss) for the period</b>	995,556	1,017,869	(1,353,315)	674,259
Deficit, beginning of period	<u>(3,666,808)</u>	<u>(2,214,717)</u>	<u>(1,317,937)</u>	<u>(1,871,107)</u>
Deficit, end of period	<u>(2,671,252)</u>	<u>(1,196,848)</u>	<u>(2,671,252)</u>	<u>(1,196,848)</u>
<b>Earnings per share data</b>				
Basic earnings (loss) per share	0.022	0.024	(0.031)	0.017
Diluted earnings (loss) per share	0.020	0.022	(0.027)	0.015

The accompanying notes are an integral part of these consolidated interim financial statements

**Uruguay Mineral Exploration Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited – prepared by management)**

(United States Dollars)	Three months ended		Nine months ended	
	February 28		February 28	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income/(loss) for the period	995,556	1,017,897	(1,353,315)	674,287
Adjustments for:	-			
Amortization, depletion and accretion	1,178,667	237,661	2,081,726	421,550
Foreign exchange	-	(58,726)		(57,529)
Fair value adjustment of derivatives	(831,000)	-	823,000	-
Compensation expense – stock based	-	-	755,504	510,954
Finance fees – stock based	-	-	188,146	-
	1,343,223	1,196,832	2,495,061	1,549,262
Net change in non-cash working capital balances (Note 9(a))	(1,658,970)	(1,646,028)	(2,544,272)	(2,280,114)
	(315,747)	(449,196)	(49,211)	(730,852)
<b>Financing activities</b>				
Proceeds from the issue of share capital, net of costs	1,991,470	2,574,678	2,245,947	7,937,052
Deferred subscriptions	(125,271)	-	-	-
Proceeds from bank debt, net of costs	852,479	-	3,779,725	-
	2,718,678	2,574,678	6,025,672	7,937,052
<b>Investing activities</b>				
Refundable deposits	30,839	-	(11,112)	30,000
Purchase of property, plant and equipment	(2,205,120)	(9,655)	(5,966,259)	(124,192)
Payments for exploration	(164,999)	(280,024)	(1,422,351)	(1,131,772)
Payments on subsidiaries acquired, net of cash acquired	(150,000)	-	(650,000)	(2,161,568)
	(2,489,280)	(289,679)	(8,049,722)	(3,387,532)
<b>Increase (decrease) in cash</b>	(86,349)	1,835,803	(2,073,261)	3,818,668
Cash and cash equivalents, beginning of period	2,983,768	3,580,033	4,970,680	1,597,168
<b>Cash and cash equivalents, end of period (Note 9(b))</b>	2,897,419	5,415,836	2,897,419	5,415,836

The accompanying notes are an integral part of these consolidated interim financial statements

February 28, 2005

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## 1. Significant Accounting Policies

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The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The reporting currency used is the United States dollar which is also the Company's functional currency. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality. These interim consolidated financial statements should be read in conjunction with the most recent annual consolidated financial statements. Significant accounting policies relevant to these financial statements are as follows:

(a) Stock-based Compensation Plan

The Company uses the fair value method to measure the cost of awards under stock-based compensation plans with the change in fair value reported in the statements of operations. The Company records a compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of the options is credited to capital stock. Compensation expense is recorded for options issued to employees, consultants and qualifying non-employees.

(b) Financial Derivatives

The Company's cash flow and profitability are affected by the market price of gold. To mitigate this risk on a proportion of the Company's income that will be used to repay debt the Company uses financial derivatives.

During the period the Company entered into spot deferred gold contracts. These spot deferred contracts were then restructured into a longer term price protection program that matches the Company's debt profile using gold put and call options.

Management believes that these contracts were effective and continue to be effective in mitigating the Company's downside exposure to the gold price. However under the CICA Accounting Guideline 13 "Hedging relationships" it is unlikely that all transactions completed during the period would meet the requirements necessary for hedge accounting. To maintain a consistent policy in the use 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.

(c) Property, plant and equipment

Plant and equipment are recorded at cost less accumulated amortization. Plant and equipment are amortized on a straight line method over the estimated productive life of the asset. Productive lives for mobile and other equipment range from 2 to 5 years, but do not exceed the related estimated life of the mine.

February 28, 2005

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## 1. Significant Accounting Policies – cont'd

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### *Mineral properties*

Mineral properties include development costs incurred to bring a mining property into production, develop new ore bodies or develop mining areas in advance of production, and are capitalized and charged to operations using the units of production method based on the estimated life of mine. Amounts shown as development costs are net of metal recoveries prior to production. Once producing, the group expenses open pit stripping costs as incurred.

Proceeds from disposition of mineral properties are normally credited to the capitalized costs with no gain or loss being recognized unless the sale is significant relative to the particular capitalized property costs. For such significant dispositions, a gain or loss would be recognized. Expenditures attributed to abandoned projects are written off in the year that the project is abandoned.

#### (d) Deferred exploration and development costs

The Company is engaged in the acquisition, exploration and development of exploration properties. The costs of all acquisition, geological, geochemical and geophysical studies and related direct and indirect overhead expenditures are deferred and carried at cost until the properties to which they relate are placed into commercial operations, sold or where management has determined there to be a permanent impairment in value. Mineral properties and development costs including acquisition costs, direct mineral exploration costs and capitalized indirect overheads. These costs are capitalized and deferred until the property is in commercial production, when these costs will be depleted as detailed in Note 1(c) above. The costs relating to a property abandoned are written off when the decision to abandon is made, or when there has been a delay in development activities that extend beyond three years, unless there is persuasive evidence to the contrary.

During the period the Company's operations at Minas de Corrales reached commercial production and \$6,550,939 was transferred from deferred exploration and development costs to mineral properties. Regional exploration within the Minas de Corrales district but outside of the designated mining areas will continue to be capitalised as deferred exploration and development.

The amount recorded as capitalized indirect overheads under deferred exploration and development costs is based on estimates and breakdown between exploration and development costs versus general and administrative activities. By their nature, these estimates are based on management's judgment and planned course of action. These estimates are subject to measurement uncertainty and the effect on the consolidated financial statements for changes in estimates in future periods could be significant.

The recoverability of amounts shown for deferred exploration and development costs is dependent upon the discovery of economically recoverable reserves, continued confirmation of the Company's interest in the underlying concessions, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from disposition or farm-out of existing mining interests. The total amount recorded for deferred exploration and development costs represents expenditures incurred to date and does not reflect nor is it an indicator of present or future values.

**Uruguay Mineral Exploration Inc.**  
**Notes to Consolidated Interim Financial Statements**  
**(Unaudited – prepared by management)**  
**(United States Dollars)**

**February 28, 2005**

**1. Significant Accounting Policies – cont'd**

(e) Foreign Currency Translation

The functional currency of all of the Company's self sustaining mining operation is the United States Dollar ("the US dollar"). For this operation the Company translates foreign currencies into US dollars on the following basis:

- Non-monetary assets and liabilities using historical rates;
- Monetary assets and liabilities using period end rates; and
- Income and expenses are translated at average rates of exchange during the period.

Gains and losses arising from the translation of foreign currency balances into US dollars and from foreign currency transactions are recorded in earnings.

**2. Property, Plant and Equipment**

	<b>February 28, 2005</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land and lease rights	\$ 688,670	\$ -	\$ 688,670
Plant and equipment	14,178,299	1,992,732	12,185,567
Mineral properties	7,983,245	712,383	7,270,862
	<u>\$ 22,850,214</u>	<u>\$ 2,705,115</u>	<u>\$ 20,145,099</u>
	<b>May 31 2004 (audited)</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land and lease rights	\$ 670,670	\$ -	\$ 670,670
Plant and equipment	4,225,736	671,843	3,553,893
Mineral properties	809,665	-	809,665
	<u>\$ 5,706,071</u>	<u>\$ 671,843</u>	<u>\$ 5,034,228</u>
	<b>February 28 2004</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land and lease rights	\$ 670,670	\$ -	\$ 670,670
Plant and equipment	2,192,142	446,112	1,746,030
Mineral properties	-	-	-
	<u>\$ 2,862,812</u>	<u>\$ 446,112</u>	<u>\$ 2,416,700</u>

The Arenal project reached commercial production during the nine month period to February 28, 2005. Accumulated deferred exploration and development costs of \$ 6,550,939 relating to the Minas de Corrales project were capitalized and amortized for production during the period.

**Uruguay Mineral Exploration Inc.**  
**Notes to Consolidated Interim Financial Statements**  
**(Unaudited – prepared by management)**  
**(United States Dollars)**

**February 28, 2005**

**3. Deferred Exploration and Development Costs**

	<b>February 28 2005</b>	May 31, 2004 (audited)	February 28 2004
Acquisition costs and option payments	\$ 650,360	\$ 1,536,944	\$ 1,550,360
Exploration, development and other property costs	2,338,845	4,990,339	4,815,768
Capitalized indirect overheads, net of exchange gains	1,547,638	3,138,148	2,776,833
	<u>\$ 4,536,843</u>	<u>\$ 9,665,431</u>	<u>\$ 9,142,961</u>

- a) The Uruguay Mining legislation requires all mining titles to be supported by guarantees for any environmental rehabilitation requirements resulting from exploration or mining activities. These guarantees are required to be posted by non-title holders. As a result, certain of the Company's employees, officers and directors have provided personal assets as guarantees. The Company intends to compensate these individuals in the event that the guarantee is called. The Company has also agreed to pay a guarantee fee to the individuals at rates advantageous to the Company. This fee is based on the amount of the guarantee and is negotiated on a case-by-case basis. The total guarantees provided at February 28, 2005 were approximately US\$ 825,973. These relate to potential site restoration responsibilities associated with exploration activities. In addition, as a consequence of the acquisition of the San Gregorio mine, the Company has assumed full responsibility for the rehabilitation of the mining site. This obligation is supported by a rehabilitation guarantee of US\$1,500,000. During the period the sum of US\$1,500,000 held in escrow to support this guarantee was released and replaced by a letter of credit provided by Macquarie Bank.

No projects were abandoned in the current period.

**4. Other Assets and Deferred Costs**

	<b>February 28 2005</b>	May 31, 2004 (audited)	February 28 2004
Refundable deposits	\$ 135,775	\$ 125,378	\$ 125,304
Capitalized debt issue costs	204,544	-	-
	<u>\$ 340,319</u>	<u>\$ 125,378</u>	<u>\$ 125,304</u>

Costs and fees relating to the secured financing facility have been capitalized and will be amortized over the life of the facilities, commencing December 1, 2004. Warrants with a value of \$ 188,146 given as compensation for the interim working capital facility have been expensed.

**Uruguay Mineral Exploration Inc.**  
**Notes to Consolidated Interim Financial Statements**  
**(Unaudited – prepared by management)**  
**(United States Dollars)**

**February 28, 2005**

**5. Debt**

	<b>February 28 2005</b>	May 31, 2004 (audited)	February 28 2004
<b>Drawn debt facilities</b>			
Working capital facility (a)	\$ 4,000,000	-	-
Deferred payment on equipment (b)(c)	4,626,947	-	-
	<u>\$ 8,626,947</u>	<u>-</u>	<u>-</u>
<b>Available debt facilities</b>			
Working capital facility (a)	\$ 4,650,000	-	-
Deferred payment on equipment (b)(c)	4,626,947	-	-
	<u>\$ 9,276,947</u>	<u>-</u>	<u>-</u>

- (a) On August 8, 2004, the Company entered into a secured \$2,000,000 interim working capital facility with Macquarie Bank Limited. On October 26, 2004 this interim facility was increased to \$3,000,000. On December 8, 2004 the Company signed documentation for a secured financing facility of \$6,500,000 replacing the interim working capital facility with Macquarie Bank Limited. This facility will provide \$1,500,000 for environmental bonds and \$5,000,000 for working capital needs. The facility will bear interest at a rate of Libor plus 2% and is secured by a general floating charge over all of the Company's assets.
- (b) On August 5, 2004, Loryser S.A. signed a sale and purchase agreement for the purchase of \$6,349,247 in mine equipment. The equipment is being purchased on deferred payment terms with an initial payment of 25%, twelve monthly installments equal to 15% and a final balloon payment of 60% 12 months from the date that equipment is assembled and ready to work. Interest on all balances outstanding accrues at the 90 day Libor rates plus 4%. Additional amounts relating to assembly and freight included in deferred payments on equipment will be paid following the final commissioning of the equipment.
- (c) On July 1, 2004, Loryser S.A. signed a sale and purchase agreement for the purchase of \$410,402 in mine equipment. The equipment is being purchased on deferred payment terms with an initial payment of 25%, seven monthly installments equal to 25% and a final balloon payment of 50% on December 31, 2004. This equipment was paid for in full in December 2004.

**6. Related Party Transactions**

Included in accounts receivable is \$nil (2003 – US \$39,497) in employee loans. The employee loans were used for the benefit of the Company to provide certain guarantees as required by the Uruguayan Government in relation to prospecting and exploration activities. The entire balance of US \$39,497 was repaid on 30 November 2004.

Uruguay Mineral Exploration Inc.  
Notes to Consolidated Interim Financial Statements  
(Unaudited – prepared by management)  
(United States Dollars)

February 28, 2005

7. Equity Instruments

(a) Authorized

Unlimited number of Common Shares

(b) Issued

Common shares	February 28, 2005		May 31, 2004	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of period	42,865,413	\$ 21,193,763	36,297,080	\$ 12,278,459
Issued for stock options exercised	521,500	361,515	150,000	44,710
Issued for cash			2,400,000	4,628,582
Issued for exercise of warrants for cash	617,750	2,013,147	4,018,333	4,242,012
Issued and Outstanding	44,004,663	23,568,425	42,865,413	21,193,763
Less: cumulative share issue costs <sup>(1)</sup>	-	(924,643)		(924,643)
Balance, end of period	44,004,663	\$ 22,643,782	42,865,413	\$ 20,269,120
Weighted average number of shares	43,607,746		39,590,211	

Warrants	February 28, 2005		May 31, 2004	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	2,630,000	\$ 547,995	4,008,333	\$ 140,000
Issued for finance fee	250,000	188,146	-	-
Issued for private placement	-	-	2,400,000	500,000
Issued as a commission for private placement	-	-	240,000	50,075
Exercised	(617,750)	(128,715)	(4,018,333)	(142,080)
Issued and outstanding, end of period	2,262,250	\$ 607,426	2,630,000	\$ 547,995
<b>Total equity instruments</b>		<b>\$ 23,251,208</b>		<b>\$ 20,817,115</b>

(1) These costs have been recorded gross of any related tax effect, as the ultimate utilization of any related tax benefit is currently uncertain.

Uruguay Mineral Exploration Inc.  
Notes to Consolidated Interim Financial Statements  
(Unaudited – prepared by management)  
(United States Dollars)

February 28, 2005

7. Equity Instruments – cont'd

(c) Warrants Issued

During August 2004, the Company issued 250,000 warrants at an exercise price of \$3.75 per share in satisfaction of a financing fee on the facilities detailed at Note 4(a). The fair value of these options were estimated using the Black and Scholes option pricing model with the following assumptions: Dividend yield (nil), Expected volatility (.4), risk free rate (3%) and a weighed average life of 2 years. As such a value of \$US188,146 was attributed to these warrants.

(d) Options and Warrants

At February 28, 2005, the Company has 2,262,250 (May 31, 2004 – 2,630,000) options and warrants outstanding. During the period, the Company issued 250,000 (2003 - 2,640,000) warrants. The outstanding warrants are exercisable as follows:

Number of Warrants	Option Price CDN \$	Expiry Date
2,012,250	3.75	April 21, 2005
250,000	3.75	August 8, 2006

The Company has a director and employee stock option plan under which it may grant options to its directors, officers, employees and consultants of the Company and its subsidiaries. The employee option Plan is for officers, directors and employees of the Company. Options under the plan are typically granted in such numbers as reflects the responsibility of the particular optionee and his or her contribution to the business and activities of the Company. Options granted under the plan have a term of up to 5 years. Except in specified circumstances, options are not assignable and terminate on the optionee ceasing to be employed by or associated with the Company. The terms of the plan further provide that the price at which shares may be issued under the Plan cannot be less than the market price (net of permissible discounts) of the shares when the relevant options were granted.

The following table summarizes information regarding the Company's outstanding options as at February 28, 2005:

	Number of Shares	Option Price per Share Range CDN \$	Weighted Average Exercise Price CDN \$
Options outstanding, May 31, 2003	1,435,000	\$0.30 - \$1.00	0.53
Options – granted	1,420,000	\$1.50 - \$4.00	2.03
Options – exercised	(150,000)	\$0.40	0.40
Options outstanding, May 31, 2004	2,705,000	\$0.30 - \$1.00	0.75
<b>Options – granted</b>	<b>676,000</b>	<b>\$3.00 - \$5.40</b>	<b>3.74</b>
<b>Options – exercised</b>	<b>521,500</b>	<b>\$0.30 - \$1.50</b>	<b>0.86</b>
<b>Options outstanding, February 28, 2005</b>	<b>2,859,500</b>	<b>\$0.40 - \$5.40</b>	<b>1.23</b>

Uruguay Mineral Exploration Inc.  
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(Unaudited – prepared by management)  
(United States Dollars)

February 28, 2005

**7. Equity Instruments – cont'd**

The following table summarizes information about the stock options outstanding to the officers, directors and staff at February 28, 2005:

Options Outstanding	Option price CDN \$	Weighted Average Exercise Price CDN \$	Remaining Contractual Life
578,500	\$ 0.40	\$ 0.40	1.95 years
235,000	\$ 0.75	\$ 0.75	2.05 years
150,000	\$ 1.00	\$ 1.00	2.56 years
920,000	\$ 1.50	\$ 1.50	3.51 years
416,000	\$ 3.00	\$ 3.00	4.26 years
60,000	\$ 3.40	\$ 3.40	4.30 years
300,000	\$ 4.00	\$ 4.00	4.19 years
200,000	\$ 5.40	\$ 5.40	4.73 years
<u>2,859,000</u>			

All of the options detailed above are fully exercisable.

**8. Segmented Information**

The Company has three reportable segments: gold, exploration and corporate. The corporate segment is responsible for corporate financing and other business development activities for the Company. The gold segment operates the San Gregorio Gold Project and the exploration segment is devoted to the acquisition and exploration of mineral properties. The gold and exploration segments operate solely in Uruguay. Precious metals are refined and sold in Canada.

	February 28 2005			
	Gold	Exploration	Corporate	Total
<b>For the 3 months ending</b>				
Sales	\$ 7,873,791	\$ -	\$ -	\$ 7,873,791
Net income (loss)	\$ 2,003,179	\$ (189,232)	\$ (818,391)	\$ 995,556
<b>For the 9 months ending</b>				
Sales	\$ 20,279,948	\$ -	\$ -	\$ 20,279,948
Net income (loss)	\$ 608,003	\$ (398,695)	\$ (1,564,623)	\$ (1,353,315)
<b>As at February 28</b>				
Property, plant and equipment	\$ 19,969,728	\$ 165,365	\$ 10,006	\$ 20,145,099
Deferred exploration and development	\$ -	\$ 4,536,843	\$ -	\$ 4,536,843

**Uruguay Mineral Exploration Inc.**  
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**February 28, 2005**

**8. Segmented Information – cont'd**

	February 28 2004			
	Gold	Exploration	Corporate	Total
<b>For the 3 months ending</b>				
Sales	\$ 6,014,319	\$ -	\$ -	\$ 6,014,319
Net income (loss)	\$ 1,319,720	\$ -	\$ (301,823)	\$ 1,017,897
<b>For the 9 months ending</b>				
Sales	\$ 8,616,695	\$ -	\$ -	\$ 8,616,695
Net income (loss)	\$ 1,888,638	\$ -	\$ (1,214,351)	\$ 674,287
<b>As at February 28</b>				
Property, plant and equipment	\$ 2,260,199	\$ 152,996	\$ 3,533	\$ 2,416,728
Deferred exploration and development	\$ -	\$ 9,142,961	\$ -	\$ 9,142,961

Exploration expenditure on the Minas de Corrales gold project and associated exploration equipment included in property plant and equipment were transferred from the exploration segment to the gold segment during the quarter.

**9. Supplementary cash flow information**

(a) The net change in working capital items is as follows:

	Three months ended February 28		Nine months ended February 28	
	2005	2004	2005	2004
Prepaid expenses and other	\$ 41,936	\$ (321,762)	\$ (195,718)	\$ (468,632)
Accounts receivable	(859,003)	(1,406,425)	(1,206,852)	(1,472,173)
Accounts payable and accrued liabilities	402,195	(106,230)	804,522	515,025
Inventory	(1,244,098)	188,389	(1,946,224)	(854,334)
Net change in non-cash working capital balances	\$ (1,658,970)	\$ (1,646,028)	\$ (2,544,272)	\$ (2,280,114)

(b) Included in cash and cash equivalents at May 31 2004 is \$ 1,500,000 of cash held in escrow to support environmental bonds. This cash was released from escrow during the quarter.

**10. Financial Derivatives**

The Company uses financial derivatives to mitigate the effect of certain risks that are inherent in its business. As at February 28, 2005 the Company had entered into a number of financial derivatives to reduce its exposure to the gold price. These instruments consist of gold option contracts. The Company intends to deliver into these contracts.

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**Uruguay Mineral Exploration Inc.**  
**Notes to Consolidated Interim Financial Statements**  
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**February 28, 2005**

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**10. Financial Derivatives – cont'd**

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For these contracts the fair value was calculated using the spot price at period end, future prices and volatilities. The nature and level of these contracts are such that they offer a degree of downside protection while allowing the Company to participate in price appreciation. The fair value of these contracts is noted below. The net value of these contracts have been recorded as a liability.

	<b>February 28, 2005</b>	May 31, 2004 (audited)	February 28 2004
Gold put options	<b>\$ 165,000</b>	-	-
Gold call options	<b>(988,000)</b>	-	-
	<b>\$ (823,000)</b>	-	-

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The Company has entered into put option contracts on 40,000 ounces at a forward price of \$US 400 per ounce. To cover the cost of the put option contracts the Company has sold 40,000 call options at a forward price of \$US 436 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 decrease in the gold price during the period has meant that the combined fair value of these options has decreased from \$ 1,654,000 at November 30, 2004 to \$ 823,000 at February 28, 2005. The gain for the quarter of \$831,000 represents this movement..

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**11. Subsequent Events**

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Subsequent to the period end 75,500 staff stock options were exercised providing proceeds of \$CAD 216,400. Subsequent to the end of the period the group has received/is expecting to receive conversion notices for 2,012,250 warrants at an exercise price of CAD \$3.75. This will generate proceeds of \$CAD 7,545,937.

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**12. Commitments and Contingencies**

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The group has committed to purchase an additional \$ 1,400,000 in mine equipment. The equipment will be purchased on deferred payment terms with an initial payment of 25%, twelve monthly installments equal to 15% and a final balloon payment of 60% 12 months from the date that the equipment is assembled and ready to start work.

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**13. Differences between Canadian GAAP and International Financial Reporting Standards**

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The Group prepares its financial statements in accordance with Canadian GAAP, which conforms to IFRS in all respects material to the Consolidated Financial Statements presented by the Group. No significant reconciling items between amounts reported under Canadian GAAP and IFRS were identified.

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**Uruguay Mineral Exploration Inc.**  
**Schedule of Deferred Exploration and Development Costs**  
**(Unaudited)**  
**(United States Dollars)**

**February 28, 2005**

	May 31, 04	Expenditures	Transfers	February 28, 05
<b>Minas de Corrales Gold Project (1)</b>				
Acquisition	\$ 900,000	\$ -	\$ (900,000)	\$ -
Exploration	2,876,817	895,718	(3,664,946)	107,589
Deferred administration	1,915,587	82,488	(1,985,993)	12,082
	<u>5,692,404</u>	<u>978,206</u>	<u>(6,550,939)</u>	<u>119,671</u>
<b>Base Metals Projects (2)</b>				
Acquisition	105,180	-	-	105,180
Exploration	1,268,463	345,744	-	1,614,207
Deferred administration	848,970	21,733	-	870,703
	<u>2,222,613</u>	<u>367,477</u>	<u>-</u>	<u>2,590,090</u>
<b>Other Gold Projects (3)</b>				
Acquisition	480,000	-	-	480,000
Exploration	515,309	16,466	-	531,775
Deferred administration	354,235	1,035	-	355,270
	<u>1,349,544</u>	<u>17,501</u>	<u>-</u>	<u>1,367,045</u>
<b>Diamonds Projects (4)</b>				
Acquisition	65,180	-	-	65,180
Exploration	29,606	55,668	-	85,274
Deferred administration	19,356	3,499	-	22,855
	<u>114,142</u>	<u>59,167</u>	<u>-</u>	<u>173,309</u>
<b>Regional Exploration (5)</b>				
Acquisition	-	-	-	-
Exploration and overhead	286,728	-	-	286,728
	<u>286,728</u>	<u>-</u>	<u>-</u>	<u>286,728</u>
	<u>\$ 9,665,431</u>	<u>\$ 1,422,351</u>	<u>(6,550,939)</u>	<u>\$ 4,536,843</u>

No amounts directly related to these projects were expensed. During the nine month period ended February 28, 2005, total expenditures for deferred exploration and mineral properties were \$1,422,351 (2004 year - \$1,655,421).

February 28, 2005

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- (1) **Minas de Corrales Gold Project:** The MCGP is situated approximately 450 kilometres north of Montevideo and is Uruguay's only operating gold mine. The Corporation controls 100% of this historic gold field, which is characterized by widespread gold mineralization. The two largest deposits discovered to-date are the San Gregorio deposit, which has produced over 500,000 ounces since it was discovered in the mid 1880's, and the Arenal deposit, which was discovered in 2003. Arenal, which is still being evaluated, contains an inferred resource of over 750,000 ounces. Mining commenced at Arenal in October 2004. Other mineable deposits in the area include Sobre Saliente and Castrillón, where indicated resources of approximately 200,000 and 20,000 ounces of gold respectively have been delineated. The Company has an aggressive exploration effort underway in the area targeting further "Arenal-style" deposits.
- (2) **Base Metals Projects.** These include the **Isla Patrulla/Texas** copper/gold project where a substantial zone of copper and gold anomalism has been identified approximately 300 km north-east of Montevideo. A number of targets have been identified using a combination of stream geochemistry and airborne geophysics, and these targets are being evaluated using a program of detailed geological mapping and soil sampling. Previous drilling at the Texas prospect intersected high-grade, but narrow width copper/gold/lead/silver mineralization, and the search now is for locations where this mineralization will have accumulated in greater thicknesses. At **Mal Abrigo**, located approximately 140 km WNW of Montevideo, a large, layered mafic/ultramafic complex is the subject of study for nickel/copper/platinoids. Disseminated copper and nickel sulphides are visible at the surface in a number of places and work is underway to identify areas where massive sulphides may have accumulated. At **Lascano**, located approximately 250 kilometres north-east of Montevideo, a very strong gravity high approximately 70 kilometres long by up to 40 kilometres wide is being explored as a nickel/copper/platinoid project. Following the drilling of a 450 meter-deep stratigraphic hole in 2002, further modeling work has changed the understanding of the complex. Further geophysical work is required before new drill targets can be accurately defined. At **Paso del Lugo**, (nickel/copper) approximately 250 km north-west of Montevideo, work is suspended pending title grant.
- (3) **Other Gold Projects.** These include **Presidente Terra**, which is located approximately 240 kilometres north east of Montevideo, where work conducted during 2000 and 2001 identified high-grade mineralized float over a 12 kilometer strike length of a large gold-mineralized shear system. Presidente Terra project has been on hold due to competing priorities, but work is scheduled to resume in 2005. **Mirta**, which is located near Colonia in the south-west of Uruguay, is a complex, shear-hosted gold deposit. The deposit is characterized by a series of short, plunging, high-grade ore zones contained within a broader, low-grade mineralisation envelope. At **Chamizo**, which is located approximately 120 km WNW of Montevideo, a gold-bearing metamorphosed acid tuff is being investigated. Drill results released to-date include 11.3 metres grading 4.86 g/t Au.
- (4) **Diamonds including Cinco Rios Project.** This project is located in the North of Uruguay and includes the area around Minas de Corrales, as well as the properties obtained through the acquisition of Cinco Rios SA. Results of a close-spaced stream sampling program are awaited. The Company has previously recovered several macro-and micro-diamonds, together with kimberlite indicator minerals (including G10 garnets) in the area and the current work program is directed at closing down the size of the areas where to source rocks might be found.
- (5) **Regional Exploration.** The Company maintains an ongoing program of identifying and field-checking geochemical anomalies obtained from reviewing data held within the Company's proprietary data-base. Where appropriate successful prospects are designated and allocated to the major project groupings shown above.