uruguay mineral exploration inc.

- **Management Discussion & Analysis for the period ended February 28, 2005**

Effective Date: April 13, 2005

Uruguay Mineral Exploration Inc.
Management's Discussion and Analysis
February 28, 2005

Management's discussion and analysis ("MD&A") provides a discussion of the Company's material financial and operating results for the three and nine months ending on 28 February 2005, 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 April 13, 2005 and all amounts are expressed in United States currency unless otherwise stated.

FINANCIAL RESULTS

For the three months to February 28, 2005 UME incurred a net gain of $ 995,556 equal to $ 0.022 per share. The result for the nine months to February 28 2005 was a loss of $ 1,353,315 equal to a loss of $ 0.031 per share. The results for the current quarter were affected by:

- Unrealized gain of $ 831,000 arising from "mark to market" on gold derivatives; and
- Fees and costs of approximately $ 575,000 associated with listing the Company on the London Stock Exchange (AIM).

Production for the quarter was 18,896 ounces reflecting the higher grade of feed from Arenal. Production was 2,962 oz higher than the previous quarter (15,934 oz) and 5,945 oz higher than the corresponding quarter of the prior year.

Sales revenue was $ 7,873,791 for the quarter and $ 20,279,948 for the 9 months. This compared to $ 6,104,319 and $ 8,616,695 for the same periods in the prior year. 17,591 ounces of gold were sold during the quarter at an average price of $ 428 per ounce. No deliveries into hedge contracts occurred in the quarter. Gold sales for the 9 months to February 28 were 46,770 ounces of gold at an average price of $ 415 per ounce

The contribution margin for the quarter was $ 2,778,922 and $ 5,044,315 for the 9 month period to February 28. This compares to $ 1,594,399 and $ 2,322,610 for the corresponding periods of the prior year. Increased production levels and higher grade for the quarter contributed to these results. Unit cash operating costs for the quarter were $ 263 per ounce and $ 307 for the 9 months to February 28, 2005.

Amortisation and depletion expense was $ 1,178,667 for the quarter and $ 2,081,726 for the 9 months to February 28. The depreciation expense for the corresponding periods of the prior year was $ 237,661 and $ 421,550 respectively. This increased expense reflects additional amortization due to the Arenal project reaching commercial production and the acquisition of new mining equipment.

OPERATIONS

Mill throughput for was 275,849 tonnes the quarter and 888,393 tonnes for the nine months to February 2005. Ore processed in the February quarter was 10% lower than the previous quarter reflecting mechanical issues associated with the crushing circuit. The crushing circuit is being improved and a study has commenced to replace this circuit during 2006 financial year to increase throughput and reduce costs.

Mill feed for the quarter was sourced from Arenal (90%), Zapucay (6%), and low-grade stockpile material (4%). Milling rates during the quarter were also affected by the higher percentage of fresh Arenal ore, which is harder than the near-surface material, and softer ores treated in earlier quarters.

The average grade of ore milled for the quarter was 2.24 g/t compared to 1.7 g/t in the previous quarter. This increase reflects the increase, in accordance with mine plans, of the grade presenting from Arenal. Mill recovery averaged 95.2%, an improvement over the previous quarter.

Production statistics for the prior 6 quarters are summarized below.

	Quarter 2 * Nov 2003	Quarter 3 Feb 2004	Quarter 4 May 2004	Quarter 1 Aug 2004	Quarter 2 Nov 2004	**Quarter 3 Feb 2005**	**FYTD 04/05**
Ore Tonnes Processed	173,623	237,163	257,535	304,551	307,993	**275,849**	**888,393**
Grade (g/t Au)	1.97	1.80	1.56	1.65	1.70	**2.24**	**1.85**
Recovery	91.2%	94.2%	95.0%	95.1%	94.5%	**95.2%**	**94.8%**
Gold produced (ounces)	10,017	12,951	12,301	15,352	15,934	**18,896**	**50,182**

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

PRODUCTION COSTS

Mine operating costs were $ 5,094,869 for the third quarter with an average cash cost of production of $ 263 per ounce. This compares to $ 5,605,510 and cash operating costs of $ 372 per ounce in the previous quarter. Mine operating costs for the third quarter of the prior year were $ 4,509,520.

Productivity of mining operations continued to improve in the current quarter as all new mining equipment has been commissioned and the full length of the Arenal pit became available for mining. However, mining costs are still adversely affected by the need to double handle the ore from Arenal pending the construction of a river crossing capable of handling fully laden haul trucks.

Plant operating costs for both the quarter and the 9 months reflect continued high levels of plant maintenance expenditure. The high plant maintenance expenditures reflect the restoration and upgrading of the plant to a level commensurate with the Company's objectives for availability (production capacity), metallurgical efficiency (resource utilization) and long term cost reduction through improved maintenance planning and better wear material selection.

This focus is necessary because, since the beginning of the financial year, cost increases in $US have been experienced in electricity 30 %, fuel 20 % and operating consumables (steel, chemicals). As a result the Company is actively examining alternatives in order to reduce unit consumption and mitigate further price appreciation.

OTHER REVENUES AND EXPENSES

No stock based compensation expense was recorded for the quarter.

In the current quarter an unrealized non-cash fair value gain of $831,000 was recorded on financial derivatives bringing the aggregate year to date expense to $823,000. This gain/expense represents the present value of closing out all future gold put and call options on 28 February 2005. The gain for the quarter reflects the expiry of contracts and a fall in the gold price from $451 at November 30 2004 to $ 435 at February 28 2005.

General and administrative expenses for the quarter were $1,347,705 and $2,390,382 for the 9 months to February 28 2005. Included in the current quarter expense was $575,000 in costs associated with listing the Company on the London Stock Exchange AIM.

FINANCIAL POSITION

At February 28, 2005, UME had cash resources of $2,897,419 compared to $4,970,680 million including cash held in escrow of $ 1,500,000 at 31 May 2004. Net cash used in operating activities during the quarter was $315,747 compared with $49,211 cash used in operating activities for the nine months to February 28.

Investment in working capital balances for the quarter was $1,658,970, lifting the nine month increase to $2,545,272. This reflects increases in gold-in-circuit, gold-in-transit and consumables inventory as a result of higher production levels and increases in tax receivables. This investment in working capital will stabilize as target production levels are reached and sustained.

Capital Expenditure

Investment in property plant and equipment, after offsetting deferred equipment financing, was $2,205,120 for the quarter and $ 5,966,259 in the nine months to February 28. Expenditure for the quarter included $ 416,000 in near mine resource drilling, construction of the flood protection barrier for the Arenal pit, upgrade to security systems and new mining equipment. Exploration expenditure, excluding near mine exploration included in mine properties, was $ 164,999 for the quarter.

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 nine months to 30 November 521,500 employee options were converted into shares to provide proceeds of $ 361,515. A further 617,750 warrants were exercised generating proceeds of $2,013,147. At February 28, 2005 UME had 2,262,250 warrants, 2,859,500 stock options and 44,004,663 common shares outstanding.

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

EXPLORATION AND DEVELOPMENT

Minas de Corrales Gold Project

The major focus of the exploration group during the February Quarter continued to be providing better definition of the Arenal ore body through infill and extensional drilling.

A total of thirty seven (37) reverse circulation holes (for 5628 metres) and seven (7) diamond drill holes (for 1178 metres) were completed at Arenal during the quarter with the twin objectives of final definition of the Phase 1 Pit boundaries, and tracing the eastern extension of the mineralised structure.

This program included further drilling for hydrological and geotechnical purposes and twinning of certain reverse circulation holes with new diamond holes to provide required assay validation for the purposes of external resource calculation verification. Definition drilling at Arenal has now been undertaken to RL zero, a vertical depth of 120 meters, and this work is now essentially complete. All this information is being used to re-model and confirm the Phase 1 pit design, and will enable the Phase 2 pit design to be commenced.

The step-out drilling to the east of the Arenal pit was successful, and the east-west strike length of the mineralised structure in now known to be at least 1200 meters, and still open in both directions.

Down dip, the main mineralisation appears to weaken at around 280 metres down structure. In considering this however, it needs to be understood that all along the San Gregorio Arenal shear, the high-grade mineralisation appears as lenses, both in the horizontal and vertical dimensions. Further high-grade lenses may therefore be expected along strike, and down plunge.

Apart from work at Arenal, near-mine exploration was focussed on the Santa Teresa West, North and Santa Maria targets. This work included soil sampling, trenching, reverse circulation drilling and diamond drilling.

At Santa Maria, a mineralized structure located approximately 500 meters north of and parallel to the Santa Teresa West mineralisation has been recognised. A strong gold-in-soil anomaly some 500 meters long has been defined associated with this structure. Earlier drilling returned a best intersection of 14 meters of 2.17

g/t gold from 6 meters in hole RCSM02 and, following an extensive trenching program, a program of RAB/RC and diamond drilling has commenced. The best intersection returned to date is 18 meters grading 2.84 g/t gold from 58 meters in hole RCSM 15. The exploration program on this target is continuing.

Regional Exploration

Elsewhere, regional evaluation work including soil and rock chip sampling, geophysical surveys and scout drilling (rab and diamond) continued at **Espinosa**, and a program of RAB and diamond drilling is in progress following up on an earlier reported intersection of 12m @ 2.5g/t. Intensive rock chip sampling following the interpreted "mineralised horizon" has disclosed several new zones with anomalously high gold values.

In the same area, regional mapping has encountered a zone of malachite-bearing sheared carbonate rocks with copper oxide grades to 0.7% Cu. This unit strikes approximately ENE and to date has been traced over 1200 meters. An induced polarisation (IP) program over the mineralised outcrops at Espinosa has shown an elevated response indicating disseminated sulphides. Drilling is continuing with the objective of correlating these IP responses with gold mineralisation

At **Mal Abrigo**, disseminated sulphide zones have been detected within what has been interpreted to be a large gabbro/norite complex with the principal sulphide being pyrite with minor pyrrhotite and chalcopyrite. A new geological model has now been suggested, and this is currently being tested. The speed of progress on this project is suffering from delays in North American laboratories due to the increased activity levels in the sector.

Regional prospecting in the area has located additional disseminated nickel and copper sulphides in the nearby Cerro Negro complex which may be 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 with results yet to come from the laboratory.

Sampling and mapping continued during the quarter with a number of ultramafic layers being identified along the margins of the complex.

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

At **Cinco Rios Diamonds** stream sediment sampling has been completed in drainage catchments where previous surveys had detected indicator mineral assemblages or micro diamonds with 113 samples being taken. The samples comprise 100 kilograms of stream sediment collected from suitable trap sites and concentrated to a 10 kilogram sample for analysis for diamonds and indicator minerals.

Initial results show many of the samples are positive for diamond indicator minerals and micro probe work is being undertaken on some selected samples.

In addition, a bulk screened sample of river gravels (approximately 30 tonnes) has been taken from the Corrales River and is now awaiting final customs approvals to be transported to a commercial laboratory in Brazil for diamond and indicator mineral analysis.

A proposal has been received from Bell Geospace for an air borne magnetics and gravity survey over the central portion of the **Lascano** anomaly, which is tentatively scheduled for around August 2005.

The Company currently has six exploration rigs working, and has a seventh rig being refurbished in Santiago, Chile. This rig, which will have the capacity to do deep reverse circulation drilling (400 metres), is expected to be completed and ready for delivery by the end of April

OUTLOOK

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 upgraded to increase exploration flexibility for both near mine and regional exploration programs.

The group expects to proceed with the proposal to complete a airborne magnetics and gravity survey on the Lascano anomaly during the second half of 2005. This survey, which is expected to cost $1,200,000 is expected to identify new drill targets for late 2005 early 2006.

FINANCIAL INSTRUMENTS

The Company has used financial derivatives to mitigate its exposure to the gold price for approximately 30% of its production over the next 15 months. This protection protects the repayment of debt over this period and at February 28 consisted of 40,000 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 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 $ 823,000 on the 40,000 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

No related party transactions occurred during the quarter.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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.

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 *(in US$000 except where otherwise noted)*	Quarter 3 February 2005	Quarter 2 November 2004	Quarter 1 August 2004	Quarter 4 May 2004	Quarter 3 February 2004	Quarter 2 November 2003	Quarter 1 August 2003	Quarter 4 May 2003
Sales								
Gold sold (ounces)	17,591	14,397	14,782	12,977	14,683	6,541	-	-
Average sales price ($/ounce)	428	422	396	399	407	360	-	-
	$	$	$	$	$	$	$	$
Operating revenues	7,873,791	6,328,501	6,077,656	5,372,235	6,104,319	2,512,376	-	-
Operating expenses	(5,094,869)	(5,605,510)	(4,535,254)	(4,458,978)	(4,509,920)	(1,784,165)	-	-
Operating income	2,778,922	722,991	1,542,402	913,257	1,594,399	728,211	-	-
Administration	(1,347,705)	(700,833)	(341,844)	(253,555)	(301,823)	(365,858)	(35,716)	(134,575)
Depreciation and amortization	(1,178,667)	(660,190)	(242,869)	(225,663)	(237,661)	(183,820)	(69)	(93)
Interest and financing costs	(98,808)	(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	831,000	(1,444,000)	(210,000)	-	-	-	-	-
Other	10,814	(40,652)	48,432	(210,638)	(9,524)	39,541	-	-
Net income (loss) for the period	995,556	(2,540,982)	192,111	(121,089)	1,017,869	203,129	(546,739)	(134,668)
Basic earnings (loss) per share	.022	(0.058)	.004	(.003)	.024	.005	(.015)	(0.004)
Cash flow from (used in) operations	(315,747)	(121,106)	387,642	1,396,030	(449,196)	(268,335)	(13,321)	(45,730)
Cash from financing activities	2,718,678	2,258,172	1,048,822	1,339,828	2,574,678	5,362,374	-	-
Cash invested	(2,489,280)	(3,354,174)	(2,206,268)	(3,291,014)	(289,679)	(2,599,445)	(498,408)	(510,497)
Cash on hand	2,897,419	2,983,768	4,200,876	4,970,680	5,415,836	3,580,033	1,085,439	1,597,168
Total Assets	37,466,863	35,541,340	28,648,352	25,994,073	24,804,584	21,326,936	9,771,719	9,772,862
Shareholders Equity	22,197,613	19,208,514	21,198,465	20,361,258	18,755,255	15,067,087	9,674,718	9,710,503

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 August 30 2004	Three months ending November 30 2004	Three months ending February 28 2005	Nine months ending February 28 2005
Operating expenses	4,535,254	5,605,510	5,094,869	15,235,633
Other	(12,584)	317,470	(133,909)	(170,977)
Total cash costs	4,522,670	5,922,980	4,960,960	15,406,610
Gold production in ounces	15,352	15,934	18,896	50,182
Total cash costs per ounce	295	372	263	307

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.