uruguay mineral exploration inc.

Management Discussion & Analysis
for the three month period ended August 31, 2005

Effective Date: October 12, 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.

Management's discussion and analysis ("MD&A") provides a discussion of the Company's financial and operating results for the quarter ended 31 August 2005, with comparisons to previous quarters.

This MD&A accompanies, and should be read in conjunction with, the unaudited interim financial statements of Uruguay Minerals Exploration Inc ("UME" or "Company") for the three month period ended August 31, 2005. All amounts are expressed in thousands of US$, unless otherwise indicated. The reader should also refer to the audited financial statements for the two years ended May 31 2005 and 2004.

HIGHLIGHTS

Highlights for the quarter ended August 31, 2005 include.

- Gold production of 25,163 ounces at an average cash cost of $US 212 per ounce.
- Net profit after tax of $ 2,240 K or $ .048 per share.
- Cash flow from operations of $ 4,189 K before non cash working capital movements.
- Sales were $ 11,721 K and the average price of gold sold was $ 432 per ounce.

FINANCIAL PERFORMANCE

Sales

Sales for the quarter were $ 11,721 K from 26,049 ounces of gold at an average price of $ 432 per ounce. This compares to $ 6,077 K in the corresponding quarter of 2004, which resulted from sales of 14,782 ounces of gold at an average price of $ 396 per ounce. All gold option contracts expired unexercised during the period.

The net profit interest attributed to earnings from Arenal during the period was $ 306 K.

Operating Earnings

Net profit after tax for the quarter was $ 2,240 K or $.048 per share, compared to $ 192 K or $.004 per share for the first quarter of 2004. Contribution margin for the quarter was $5,655 K compared to $ 1,543 K in quarter 1 2005. This improved financial performance resulted from the increase in gold production and gold price.

Tax expense for the quarter was $ 798 K compared to nil in the corresponding quarter of 2005.

Metal Production

During the quarter 312,016 tonnes of ore at an average grade of 2.63 g/t were processed at San Gregorio to produce 25,163 ounces of gold. This production level represents the first quarter in which the targeted production rate of 100,000 ounces per annum has been achieved.

The grade of ore processed during the quarter increased in comparison to the August 2004 quarter as Arenal ore represented the primary source of plant feed.

265,505 tonnes or ore and 1,814,505 tonnes of waste were mined during the quarter from the Arenal deposit. The balance of ore treated came from stockpiles.

Production statistics are summarized below.

Quarterly production statistics						
	Quarter 1 Aug 2004	Quarter 2 Nov 2004	Quarter 3 Feb 2005	Quarter 4 May 2005	Year 2005	Quarter 1 Aug 2005
Ore processed (tonnes)	304,551	307,993	275,849	306,238	1,194,631	312,016
Grade processed (g/t Au)	1.65	1.70	2.24	2.67	2.06	2.63
Recovery	95.1%	94.5%	95.2%	95.2%	95.0%	95.3%
Gold produced (ounces)	15,352	15,934	18,896	24,844	75,026	25,163

Expenses

Operating expenses were $ 5,760 K in the August 2005 quarter after deferring $795 K in deferred stripping costs. Cash cost per ounce was $ 212. In the first quarter of the prior year operating expenses were $ 4,535 K with a cash cost per ounce of $ 295. The lower unit cost is attributed to higher production resulting from an increase in the average grade of material processed for the quarter to 2.63 g/t.

Amortisation and depreciation expense increased from $ 243 K in the first quarter of the prior year to $1,749 K in the current quarter as historical exploration expenses relating to Arenal and the replacement of the new mining fleet are amortised.

Other Revenues and Expenses

The unrealized fair value loss on gold derivative transactions was $ 197 K for the quarter compared to a loss of $ 210 K in the corresponding quarter of the prior year. Stock compensation expense was nil as no employee stock options were issued during the quarter.

FINANCIAL POSITION

Cash and other liquid resources

At August 31, 2005, UME had cash resources of $ 7,382 K compared to $ 5,501 K at 31 May 2005. Cash flow from operations was $ 4,548 K after non-cash working capital items contributed $ 359 K. Accounts payable increased during the quarter due to an accrual for net profit interest.

Capital Expenditure

Expenditure on property plant and equipment for the quarter was $ 4,103 K of which $ 968 K was financed using deferred equipment purchases. Investments in property plant and equipment for the quarter included $ 1,330 K on new mining equipment, $ 400 K on re-furbishment of a exploration drill rig, $186 K on tailings dam construction and $ 260 K on pre-strip of the San Gregorio East and Santa Teresa pits. Near mine site exploration expenditure was $ 439 K for the quarter with an additional $537 exploration expenditure targeted at increasing resources at the San Gregorio operation. Near mine exploration expenditure has been included in property plant and equipment investment.

Part of the historical mining fleet was sold during the quarter for proceeds of $300 K.

Financing

During the quarter the Company agreed to purchase an additional $1,352 K in mine equipment from Komatsu Latin America Corporation. This 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%.

Subsequent to period end, the Company accepted an offer from Macquarie Bank Limited to extend its working capital facility in the amount of $2,000 K until September 30, 2006. The facility availability is subject to finalising documentation and satisfaction of conditions precedents.

During the quarter 84,000 employee options were converted into shares to provide proceeds of $ $ 168 K. At August 31, 2005 UME had 250,000 warrants, 2,685,000 stock options and 46,191,413 common shares outstanding.

EXPLORATION AND DEVELOPMENT

Exploration activities during the quarter focused on;

- Improving definition of resources at Arenal and San Gregorio,
- mapping, soil sampling, geophysical surveys and drilling of regional gold and nickel targets on the Isla Crystallina
- regional evaluation work on the Dom Feliciano mobile belt including air photo interpretation and soil sampling.
- planning for the Lascano airborne gravity and magnetic survey in the next quarter

Arenal and San Gregorio

RC and DDH drilling has continued to test the eastern and western extensions of Arenal. Nineteen (19) RC holes (3,015 metres) and four (4) diamond drill holes (763 metres) were completed during the reporting period.

The main focus of the Arenal drilling was to complete infill and check drilling, with some step out drilling along strike and down dip on the eastern end of the mineralized sequence. This drilling confirmed that the mineralized sequence continues but generally with lower grade, however there are indications that another high-grade lens is appearing to the south-east at depth.

Previous drilling during 2003 identified Ombú, a new resource that represented a continuation of the San Gregorio system to the west of the historical main pit of San Gregorio. A further RC and diamond drill program aimed at improving resource definition was undertaken on the Ombú mineralized zone during the quarter. 3,321 meters or RC and 700 meters of diamond drilling were performed. An indicated resource estimate was calculated for this area to a depth of RL0 of 768,000 tonnes grading 1.41 g/t Au.

During the quarter an RC and diamond drill program commenced at Rieles/San Gregorio East to test the mineralized sequence to the east of the San Gregorio main pit. Two pits that have previously been filled with waste are being emptied to allow this program to be finished during early 2006. 2,242 meters of RC drilling were performed during the quarter.

The objective of the Rieles and Ombú programs is to study the potential for the re-development of the San Gregorio pit to the east, west and at depth.

Regional Gold and Nickel Targets on Isla Cristalina

Following the suspension of mining at Zapucay, exploration work re-commenced to assess the potential along the Zapucay shear zone for repetitions of the mineralization. Mapping of 20 square kilometers has identified three target zones. Trenching performed during the quarter identified best results of 2 m at 1.9 g/t Au, 2 m at 1.33 g/t Au and 2 m at 6.06 g/t Au. Drilling of target areas will occur during the November quarter.

The Carpentaria Nickel project lies approximately 40 km to the east of Arenal. An extensive sequence of extrusive ultramafic rocks interbedded with carbonaceous shales and volcanic tuffs is associated with granitic intrusives. Work during the quarter comprised mapping, soil sampling and geophysical surveys over a 25 square kilometer area. Disseminated sulphides (including pentlandite and pyrrhotite) have been identified by petrographic studies, and coherent nickel soil anomalies up to 0.4% Ni have been outlined. Mapping and geophysical surveys are continuing.

Dom Feliciano Mobile Belt

A consultant was engaged to undertake an interpretation of aerial photography of the Isla Patrulla section of the Dom Feliciano Mobile Belt. This work was commissioned to support ground mapping and geochemical surveys, which have been undertaken in this area over the past two years. This interpretation confirmed certain geological theories, and identified seven new targets to be evaluated in conjunction with the existing evaluation program. Geophysical surveys (Max/Min) were also commenced during the quarter.

Lascano

The Lascano project is located approximately 250 kilometers north east of Montevideo and comprises a very large and very strong gravity anomaly approximately 70 kilometers long by up to 40 kilometers wide.

Agreement has been reached with Bell Geospace to conduct an airborne gravity and magnetic survey over the anomaly during the November quarter. Information from the survey will become available in late 2005 and following approximately six months of evaluation, a drill program is likely to commence on this project.

OUTLOOK

The Company plans to maintain plant throughput at an average of 100,000 tonnes per month at an average grade of 2.75 g/t to produce 100,000 ounces of gold for the 2006 financial year. The cash cost per ounce is targeted to be approximately $200/oz per ounce. Critical non-controllable elements in achieving this cost target are fuel and electricity prices, which are both subject to market adjustments.

FINANCIAL INSTRUMENTS

UME does not enter into financial instruments for trading or speculative purposes. The levels of derivatives contracts entered into will be consistent with forecast production and must ultimately be capable of satisfaction through by delivery.

The Company currently has put option contracts totaling 25,000 ounces at a forward price of $US 400 per ounce. To cover the cost of the put option contracts the company has sold 25,000 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.

Subsequent to period end, the Company entered into an additional 10,000 ounces of gold option contracts. The Company has purchased 10,000 put options at a strike price of $ 430 per ounce and 10,000 call options at a strike price of $ 486.5 per ounce. Put and call options are equally matched with deliveries of 2,500 ounces per month commencing July 2006.

The Company has established a policy that permits a maximum of 25% of planned monthly production to be hedged for a period of 18 months. Given current production levels this equates to 37,500 ounces over an 18 month period. This level of hedging is considered a prudent level to protect short term plans against an unfavorable movement in the price of gold.

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

There has been no material change to contractual obligations and commitments since 31 May 2005.

CRITICAL ACCOUNTING ESTIMATES

There has been no material change to critical accounting estimates since 31 May 2005.

QUARTERLY RESULTS

Quarterly Results (in thousands of US$ except where otherwise noted)	Quarter 1 August 2005	Quarter 4 May 2005	Quarter 3 February 2005	Quarter 2 November 2004	Quarter 1 August 2004	Quarter 4 May 2004	Quarter 3 February 2004	Quarter 2 November 2003
Gold sold (ounces)	26,049	22,904	17,591	14,397	14,782	6,541	14,683	12,977
Average sales price ($/oz)	432	422	428	422	396	360	407	399
Cash operating cost ($/oz)	212	229	245	363	295	297	348	362
Operating revenues	11,721	10,284	7,874	6,328	6,077	2,512	6,105	5,372
Net profit interest	(306)	(253)	-	-	-	-	-	-
Operating expenses	(5,760)	(5,818)	(4,767)	(5,468)	(4,535)	(1,784)	(4,510)	(4,459)
Operating income	5,655	4,213	3,107	860	1,542	728	1,595	913
Administration	(592)	(1,015)	(1,348)	(701)	(341)	(366)	(302)	(253)
Depreciation and amortization	(1,749)	(1,785)	(1,293)	(694)	(243)	(183)	(238)	(226)
Interest and financing costs	(93)	(189)	(99)	(71)	(196)	(15)	(28)	(34)
Stock-based compensation	-	-	-	(348)	(408)	-	0	(310)
Fair value adjustment	(197)	639	831	(1,440)	(210)			
Other	14	71	11	(41)	48	39	(9)	(211)
Income Tax	(798)	610	-	-	-			
Net income (loss) for the period	2,240	2,544	1,209	(2,435)	192	203	1,018	(121)
Basic earnings (loss) per share	.048	0.056	0.028	(0.056)	0.004	.005	.024	(.003)
Cash flow from (used in) operations	4,548	2,173	(316)	(121)	388	(238)	(449)	1,395
Cash from financing	168	2,221	2,719	2,258	1,049	5,363	2,575	1,339
Cash invested	(2,835)	(1,791)	(2,490)	(3,354)	(2,206)	(2,630)	(291)	(3,179)
Cash on hand	7,382	5,501	2,898	2,985	4,202	3,581	5,416	4,971
Total Assets	46,635	42,651	37,782	35,644	28,648	21,327	24,805	25,994
Shareholders Equity	33,728	31,321	22,513	19,311	21,198	15,067	18,755	20,361

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 and deferred stripping adjustment 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.

	Quarter 1 Aug 2004	Quarter 2 Nov 2004	Quarter 3 Feb 2005	Quarter 4 May 2005	Year 2005	Quarter 1 Aug 2005
Operating expenses (000)	4,535	5,468	4,767	5,818	20,588	5,760
Other (000)	(13)	317	(134)	(123)	47	(424)
Total cash costs (000)	4,522	5,785	4,633	5,695	20,635	5,336
Gold production in ounces	15,352	15,934	18,896	24,844	75,026	25,163
Total cash costs per ounce	295	363	245	229	275	212