uruguay mineral exploration inc.

Management Discussion & Analysis
for the period ended February 28,2006

Effective Date: April 10, 2006

Management's discussion and analysis ("MD&A") provides a discussion of the Company's financial and operating results for the quarter ended February 28, 2006 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 February 28, 2006. 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. This management discussion and analysis is effective as of April 10, 2006.

HIGHLIGHTS

Highlights for the three months ended February 28, 2006 include.

- Gold production of 25,451 ounces at an average cash cost of $US 203 per ounce.
- Net profit after tax of $ 2,322 or $ .05 per share after booking a fair value adjustment of $ 937 on non-hedge gold derivatives.
- Cash flow from operations of $ 4,495 before non-cash working capital movements.
- Sales were $ 12,167 and the average price of gold sold was $US 510 per ounce.
- The Lascano airborne gravity/mag survey has been completed (9,423 line kilometers) and the results are being evaluated.
- Drilling at Argentinita has begun to return some better intersections and a revised model for the emplacement of mineralization is in process of being tested.

RCARG 71	8m @ 2.29 g/t Au from14m
RC ARG 74	14m @ 1.97g/t Au from4m
RCARG 94	6m @ 2.36 g/t Au from36m
RCARG 101	10m @ 3.29 g/t Au from 20m

From the previous quarter better results from this prospect include

RCARG 05	12m @ 2.30 g/t from 0m
RCARG23	20m @ 2.81 g/t from 10m
RCARG24	23m @ 2.37 g/t from10m

Subsequent to the end of the quarter the following results have been received

RCARG 109	32m @ 1.26 g/t (which includes 8m @ 4.46g/t) from 114m
RCARG 114	32m @ 3.1g/t from 28m
RCARG116	26m @ 1.73 g/t from 78m

Highlights for the nine months ended February 28, 2006 include.

- Gold production of 75,937 ounces at an average cash cost of $US 199 per ounce.
- Net profit after tax of $ 6,506 or $ .14 per share.
- Cash flow from operations of $ 13,702 before non-cash working capital movements.
- Sales were $ 35,214 and the average price of gold sold was $US 465 per ounce.

FINANCIAL PERFORMANCE

Sales

Sales for the quarter were $ 12,167 resulting from the sale of 23,230 ounces of gold at an average price of $US 510 per ounce. This sales amount is net of $ 223 in sales that were capitalized against pre-strip costs for the Santa Teresa pit. Sales for the corresponding quarter of 2005 were $7,874, which resulted from the sale of 17,591 ounces of gold at an average price of $US 428 per ounce. During the quarter 5,946 ounces were delivered into gold derivatives contracts at an average price of $US 436 per ounce and 17,284 ounces were sold at spot prices.

Sales for the nine month period were $ 35,214 resulting from the sale of 73,111 ounces of gold at an average price of $US 465 per ounce. This compares to $ 20,279 in the corresponding period of the prior year, which resulted from the sale of 46,770 ounces of gold at an average price of $US 415 per ounce.

Operating Earnings

Net profit after tax for the quarter was $ 2,322 or basic earnings per share of $ 0.05, compared to a profit of $ 1,209 or basic earnings per share of $ 0.022 for the third quarter of 2005. Contribution margin for the quarter was $ 6,878 compared to $ 3,107 in the corresponding quarter of the prior year.

For the nine months to February 28, 2006 net profit after tax was $ 6,506 or basic earnings per share of $ 0.14, compared to a loss of $ 1,069 or basic loss per share of $ 0.031 for the corresponding period of the prior year. Contribution margin was $ 18,560 for the nine month period to February 28, 2006 compared to $ 5,513 in the corresponding period of the prior year.

The company continued is improved financial performance during the current year compared to the prior year as a result of increase gold production and improved gold prices.

Metal Production

For the third consecutive quarter production was above the target rate of 25,000 ounces per quarter with 313,967 tonnes of ore at an average grade of 2.68 g/t being processed to produce 25,451 ounces of gold. Gold production for the nine month period was 75,937 ounces. Gold produced in the corresponding quarter and nine months of the prior year were 18,896 and 50,182 ounces respectively. The increase in production relates to the higher grade ore from Arenal.

291,000 tonnes of ore and 2,034,000 tonnes of waste were mined during the quarter from the Arenal deposit, bringing the total production for the nine months to November 30, 2005 to 791,000 tonnes of ore and 5,215,000 tonnes of waste. A further 263,000 tonnes were removed from the San Gregorio East and Santa Teresa pits during the quarter to complete the next tailings dam expansion and to provide access to additional ore in these previously worked pits.

During the quarter a pit wall slip occurred in the west wall of the Arenal pit. A wedge of approximately 30,000 tonnes was dislodged from the top of the wall and fell into the pit. No injuries to personal or equipment occurred as the event occurred during a blast and the pit was empty at the time. Independent geotechnicians have reviewed the slip and remedial measures are being taken to bolt the wall and to repair and reinforce the flood protection dyke that is adjacent to the pit.

(Thousands of United States Dollars, except where indicated)

Production statistics summarized below.

Quarterly production statistics

	Quarter 1 Aug 2004	Quarter 2 Nov 2004	Quarter 3 Feb 2005	Quarter 4 May 2005	Quarter 1 Aug 2005	Quarter 2 Nov 2005	Quarter 3 Feb 2006
Ore processed (tonnes)	304,551	307,993	275,849	306,238	312,016	312,881	313,967
Grade processed (g/t Au)	1.65	1.70	2.24	2.67	2.63	2.71	2.68
Recovery	95.1%	94.5%	95.2%	95.2%	95.3%	93.2%	93.90%
Gold produced (ounces)	15,352	15,934	18,896	24,844	25,163	25,323	25,451

Expenses

Operating expenses were $ 5,289 in the February 2006 quarter after deferring $ 803 in deferred stripping costs. Cash cost per ounce for the quarter were $US 203. Year to date operating expenses were $ 16,019 after deferring $ 2,244 in deferred stripping costs. Cash cost per ounce year to date were $US 199.

Amortization and depreciation expense was $ 2,181 for the third quarter compared to $ 1,293 in the prior year. Year to date depreciation increased to $ 6,497 when compared to the prior year when an expense of $ 2,230 was recorded. This increase in depreciation expense relates to amortization of exploration and development costs of Arenal, amortization of the net profit interest acquired in the prior quarter and the new mining fleet.

Other Revenues and Expenses

The current quarter’s earnings include an expense of $ 937 for the fair valuation of non-hedge gold financial derivatives. The corresponding quarter of the prior year included a gain of $ 831. The fair value was calculated using the period end spot rate of $US 561 per ounce while quarterly revenues were achieved at a lower average metal price of $US 510 (including derivative ounces delivered at $US 436) per ounce.

The Company issued 68,000 employee stock options during the quarter at a price of $CAD 4.62. The stock options vest in three equal annual tranches after one, two and three years. The stock option expense for the quarter was $ 176 against nil in the corresponding quarter of the prior year. The year to date stock option expense was $ 334 compared to $ 775 in the corresponding period of the prior year.

FINANCIAL POSITION

Cash and other liquid resources

At February 28, 2006 had cash resources of $ 3,590 compared to $ 5,501 at 31 May 2005. Cash flow from operations for the quarter was $ 3,599 after using $ 896 for non-cash working capital items. Accounts payable reduced by $ 957 during the quarter as the yearly royalty payment to the government was made and capital expenditure investment reduced. Cash flow from operations after non cash working capital balances for the nine months to February 2006 was $ 10,913 compared to cash used of $ 49 in the corresponding period of the prior year.

Capital Expenditure

Expenditure on property plant and equipment for the quarter was $ 5,176 including $ 1,144 relating to the purchase of the Montevideo office. This will reduce rent and provide an asset that can be used for exploration guarantees. Net payments of $ 2,761 for deferred equipment acquisition were also made during the quarter.

(Thousands of United States Dollars, except where indicated)

Exploration expenditure, excluding near mine drilling that is included in mine properties, was $ 1,347 for the quarter. Exploration expenditure related to payments for the Lascano survey and regional exploration near the Minas de Corrales gold project.

Financing

During the quarter 179,000 employee options were converted into shares to provide proceeds of $ 224. At February 28, 2006 UME had 250,000 warrants, 750,000 options on convertible notes and 3,215,000 stock options and 46,766,418 common shares outstanding. An additional 68,000 stock options were issued during the quarter at a price of $C 4.62. Subsequent to the end of the period 177,000 employee stock options were converted in common stock raising $C 209,000. At April 10 2006 UME had 46,943,418 common shares on issue and 3,038,000 stock options issued.

EXPLORATION AND DEVELOPMENT

General

Whilst exploration activities were somewhat curtailed during the February quarter as the exploration crews took a well earned Christmas break, good progress has been made on a number of projects as discussed below.

Key exploration highlights for the quarter (and subsequent to period end) were:

- The Lascano airborne gravity/mag survey has been completed (9,423 line kilometers) and the results are being evaluated.

- The airborne gravity/mag survey has been extended to include the Casupa (gold), Retamosa (lead-zinc), Minas de Corrales (gold) and Rivera (diamonds) projects for a total 5931 additional line kilometres.

- A new, potentially economic, gold-mineralised zone has been encountered at Argentinita on the Zapucay shear zone.

- Drilling at Argentinita has begun to return some better intersections and a revised model for the emplacement of mineralization is in process of being tested.

RCARG 71	8m @ 2.29 g/t Au from14m
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Subsequent to the end of the quarter the following results have been received (lower horizon)

RCARG 109	32m @ 1.26 g/t (which includes 8m @ 4.46g/t) from 114m
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RCARG116	26m @ 1.73 g/t from 78m

- A drill program has been designed for Crucera - a gold vein located within the Casupa vein system which returned high gold grades in an earlier first pass drill program (drilled by the previous operator).

- Infill and depth extension drilling on the Arenal deposit continues to consume substantial manpower and drilling resources.

Minas de Corrales Gold Project

- Arenal and San Gregorio.

Mapping, geochemical surveys and ground geophysics continued over the eastward extension of the interpreted Arenal structural trend. A followup RC drilling program (**26** holes for **2711** meters) was generally disappointing with the best intersection being 6m grading 0.75g/t Au.

RC and DDH drilling continued on Arenal and Rieles (San Gregorio) in preparation for a Reserves re-evaluation in mid 2006. **15 RC** holes for **3124** meters and **10** diamond drill holes for **1498** meters were drilled during the period, principally infill, check and step out drilling along strike and down dip of the mineralized sequences. The principal conclusion of this work is that the ore-zones are open to depth, and lenses of high-grade ore suggest that ultimately an underground mining operation will be viable at Arenal.

It is also expected that the Company's Reserves, which were constrained at US$400/oz (Arenal) and US$300/oz (San Gregorio), will expand a result of the increase in gold price.

While it is not the Company's practice to report individual drill holes, hole DDH63, which is situated outside the current pit design limit at Arenal, returned 21 metres of 4.18 g/t Au from a vertical depth of 237 metres. The purpose of reporting this result is to demonstrate that the gold grade and mineralization width of Arenal continues with depth, and is still open.

- Santa Ernestina

Following a program of 5 holes (two diamond and three RC) around and beneath the old workings of the Santa Ernestina mine (historically the second largest producer in the Minas de Corrales district), this project has been abandoned. The results obtained do not support historic production figures, and there is no evidence that volume targets exist on this project.

- Areicua

At Areicua, which lies approximately 10 kilometres north from the plant, elevated gold-in-soil geochemistry has been encountered, but the area is structurally very complex, and further work is required.

- Zapucay Shear Zone

Exploration at Zapucay has focused on testing a model where gold mineralization originating from one of the many intrusive granites in the area, has been at concentrated structurally within shadow zones associated with stresses along the main Zapucay shear.

Historically, a number of small, shallow, quartz vein-associated deposits had been mined in this area, including Zapucay, Argentinita and Lavadero. Zapucay was mined by the Company in 2003 and 2004 yielding 471,000 tonnes at an average grade of 2.05 gm/t Au.

Recent, deeper RC drilling at Argentinita has encountered a second shallow-dipping mineralized zone beneath the near-surface veins which were mined historically. Work is now underway to locate the controlling structures which, it is postulated, may lead to higher temperature, shear-hosted zones or porphyry-style mineralization associated with late phase granite emplacement.

(Thousands of United States Dollars, except where indicated)

Recent results from Argentinita to date include:

Hole ID	Easting	Northing	Dip	Depth (m)	Intercept From	Intercept To	Width (m)	Grade g/t Au
RCARG-93	638.56	3437.99	-90	64	0	64		LV
RCARG-94	698.34	3351.43	-90	70	6	14	8	O.04
					36	44	6	2.36
RCARG-95	670.22	3285.53	-90	55	0	55		LV
RCARG-96	702.06	3240.47	-90	88	38	44	6	0.68
					54	60	6	0.48
					78	88	10	0.88
RCARG-97	729.86	3235.52	-90	70	48	52	4	0.53
RCARG-98	744.81	3193.14	-90	90	50	66	16	0.83
RCARG-99	704.48	3395.71	-90	100	38	40	2	2.32
					48	52	4	0.31
RCARG-100	647.66	3675.30	-90	52	0	52		LV
RCARG-101	694.45	3676.45	-90	55	20	30	10	3.29
RCARG-102	561.30	3419.40	-90	79	26	28	2	0.86
					50	54	4	0.50
RCARG-103	545.72	3393.07	-90	76	0	76		LV
RCARG-104	556.12	3364.86	-90	76	0	76		LV
RCARG-105	670.29	3227.90	-90	94	44	48	4	0.25
RCARG-106	676.08	3252.27	-90	100	60	64	4	0.25
RCARG-107	789.42	3176.58	-90	120	92	98	6	0.38
RCARG-108	744.99	3352.56	-90	130	90	92	2	4.67
RCARG-109	750.78	3278.29	-90	150	100	132	32	1.26
RCARG-110	710	3630	-90	70	0	70		LV
RCARG-111	745	3680	-90	54	0	54		LV
RCARG-112	795	3685	-90	73	48	64	16	3.00
RCARG-113	710	3290	-90	70	20	46	26	0.67
RCARG-114	695	3194	-90	98	28	60	32	3.10
RCARG-115	800	3277	-90	160	114	120	6	0.82
RCARG-116	689	3291	-90	120	78	104	26	1.73

LV = Low Values

These preliminary results indicate that a mineable resource will be defined at Argentinita, which lies approximately 1 kilometre south of the Zapucay mine, and an infill drill program has commenced which will permit the Argentinita resource to be modeled.

Carpinteria (nickel)

Little progress was made on this project during the quarter due to the summer break. The presence of nickel sulphides (predominantly pentlandite in exsolution with pyrrhotite) demonstrates that the system has produced the right conditions for the accumulation of nickel deposits. Mapping and geophysical surveys are continuing with the objective of targeting locations where sulphide accumulation may have occurred.

Dom Feliciano Mobile Belt (base metals; gold)

During the period drilling was undertaken on the Volcadero gold prospect. The best result obtained was 22 metres grading 0.42g/t Au from 106 meters.
The generally disappointing results obtained from this and other targets in the area (both nickel, copper and gold), combined with access difficulties to some prospects and excessive demands from some land owners has resulted in a decision to scale back activities on this project. The Treinta Y Tres field office has been closed and the employees have been re-directed to other projects.

Regional exploration activities will continue along the Mobile Belt.

Lascano Geophysical Anomaly

The airborne gravity/magnetics survey of the Lascano geophysical anomaly has been completed. An area of approximately 5429 km^2 was surveyed by gathering 9,423 line kilometers of gravity data using Bell Geospace' FTG technology. Airborne magnetic data was also recovered from most of the area. The flight conditions were generally very good, and the quality of data recovered was exceptional. Work has started on interpreting this data – a process which is expected to take the balance of this calendar year. Due to the fact that this data is uniquely available to the Company, no images will be displayed until this process is complete.

As noted in a Market Release dated March 3, 2006, further surveys using the Bell Geospace FTG technology are being undertaken at Retamosa, Casupa, Rivera, Arenal and Zapucay (estimated total: 5,931 additional line kilometers).

Rivera Diamonds (Cinco Rios)

Mr Martin Jackson, an experienced diamond explorationist, joined the Company in February 2006, and is heading up the Rivera diamond project.

Following completion of a review of the Company's country-wide diamond database, electron microprobe analysis of kimberlite indicator minerals recovered from eighty previously collected reconnaissance samples has been completed during the quarter. These samples were collected from different areas of the Rio de la Plata Craton , including northern Uruguay, where the Company's Rivera project is located.

Microprobe analysis has confirmed the presence of kimberlitic garnets and chrome spinels in the project area, including one G10 garnet from a location which is approximately 3 kilometres south of a previously recovered micro-diamond. The majority of the garnets plot in the G9 compositional field and the chemistry of several of the chrome spinels is indicative of derivation from the diamond stability field (DSF). These results have been integrated with the G9 garnets and DSF spinels reported in the previous quarter and will form part of the follow-up sampling program which is in progress.

The first results which have been received from this program include abundant chrome spinels and 40 garnets from samples collected upstream from a location which historically has produced macro-diamonds. Major and trace-element analysis of the garnets and spinels will be completed during the coming quarter.

A 50 kilogram field-screened sample of +1mm /-5mm material from the bulk sample previously obtained from a location where macro-diamonds have previously been recovered has been sent to Diatech Heavy Mineral Services in Perth for concentration, fusion and observation for macro-diamonds.

The Company is encouraged by the recovery of chemically high interest indicator minerals on the Rio de la Plata Craton which hosts kimberlites and related rocks in neighbouring countries.

(Thousands of United States Dollars, except where indicated)

Florida Greenstone Belt

- Chamizo Gold Project

The Chamizo gold project has been re-activated now that drilling capacity has become available for exploration away from the mine.

Preliminary work by the Company in 2002 confirmed the existence of stratigraphically controlled gold mineralization at Chamizo, which lies within the Florida greenstone belt, approximately 120 km west north-west of Montevideo. The Company's geologists believe that the project represents a medium grade volume target amenable to open pit mining.

The best intersection recorded by the Company during the earlier phase of exploration was 5.8 metres grading 2.8 gm/t Au. This project is being readied for an additional round of drilling commencing in the next quarter.

- Crucera Gold Project

The Crucera vein is one of a number (30) of sub-parallel veins within a broader project grouping known as the Casupa Project.

The Crucera vein has been mapped in outcrop for approximately 500 metres, and averages 2-3 metres in width. Earlier drilling by previous operators at Crucera (67 holes in total; average depth 30 metres) has defined a small, high-grade (average 5 g/t Au) gold resource which is open in all directions. The earlier drilling (which was predominantly RC) has tested the western end of the structure to approximately 25 metres vertical depth, and the eastern end to approximately 60 metres vertical depth.

A trial mining parcel was recovered by the previous explorers (American Resource Corporation) in 1995, which was processed in the now closed Mahoma treatment plant. Approximately 1,000 ounces were recovered in this trial.

Subsequent drilling by American Resource Corporation and Rea Gold returned the following best results:

Hole No	Grid Easting	Grid Northing	Intercept	From -To
VCR 1	1048.68	1009.08	7m @ 9.94 g/t	8m to 15m
VCR 2	1049.49	1020.15	2m @ 6.80 g/t	17m to 19m
VCR 3	1074.39	1011.56	6m @ 8.94 g/t	6m to 12m
VCR 4	1076.02	1026.13	3m @ 7.11 g/t	17m to 20m
VCR 5	1099.42	1003.6	2m @ 3.31 g/t	5m to 7m
VCR 6	1100.11	1028.54	8m @ 4.07 g/t	24m to 32m
VCR 7	1123.22	1003.36	2m @ 2.43 g/t	8m to 10m
VCR 8	1123.21	1017.5	2m @ 4.09 g/t	21m to 23m
VCR 9	1148.05	1003.73	5m @ 2.40 g/t	7m to 12m
VCR 11	1172.72	1005.34	3m @ 2.93 g/t	10m to 13m
VCR 13	1198.22	999.9	3m @ 2.82 g/t	8m to 11m
VCR 15	1223.25	995.18	4m @ 4.3 g/t	8m to 12m
VCR 16	1223.39	1006.71	2m @ 6.24 g/t	21m to 23m
VCR 17	1248.03	991.96	10m @ 2.65 g/t	9m to 19m
VCR 18	1248.17	1000.15	4m @ 4.69 g/t	19m to 23m
VCR 19	1273.37	991.52	4m @ 4.90 g/t	8m to 12m

(Thousands of United States Dollars, except where indicated)

Hole No	Grid Easting	Grid Northing	Intercept	From -To
VCR 20	1273.68	999.55	3m @ 3.12 g/t	17m to 20m
VCR 21	1297.99	989.93	4m @ 4.58 g/t	7m to 11m
VCR 22	1297.33	998.03	4m @ 3.08 g/t	17m to 21m
VCR 23	1317.2	986	4m @ 4.43 g/t	6m to 10m
VCR 25	1099.38	1012.72	3m @ 3.10 g/t	14m to 17m
VCR 26	1024.26	1009.33	2m @ 3.59 g/t	7m to 9m
VCR 27	1023.68	1016.75	3m @ 2.83 g/t	14m to 17m
VCR 30	862.74	1001.16	3m @ 6.16 g/t	9m to 12m
VCR 31	863.72	1007.87	4m @ 5.83 g/t	7m to 11m
VCR 32	845.61	1008.22	23m @ 5.22 g/t	6m to 9m
VCR 33	848.29	1014.14	5m @ 12.23 g/t	9m to 14m
VCR 35	823.9	1021.83	4m @ 4.73 g/t	4m to 8m
VCR 36	823.82	1029.24	2m @ 7.5 g/t	12m to 14m
VCR 37	798.7	1023.83	3m @ 3.09 g/t	6m to 9m
VCR 38	797.78	1031.33	3m @ 8.64 g/t	14m to 17m
VCR 39	773.74	1021.42	3m @ 7.29 g/t	6m to 9m
VCR 40	773.09	1028.57	4.0m @ 4.09 g/t	13m to 16m
VCR 45	699.83	1006.94	4.0m @ 18.03 g/t	9m to 13m
VCR 46	698.39	1014.21	4.0m @ 7.65 g/t	19m to 23m
VCR 49	673.11	1007.49	7.0m @ 1.28 g/t	5m to 12m
VCR 52	662.36	988.36	5.0m @ 2.28 g/t	13m to 18m
DDH VC1	1049.35	1035.41	1.93m @ 3.70 g/t	31.42m to 33.35m
DDH VC6	1248.47	1021.21	2.41m @ 4.79 g/t	49.15m to 51.56m
VCD 1	1297	1066.3	2.0m @ 15.27 g/t	87.5m to 89.5m
VCD 2	1100	1107.5	1.1m @ 6.03 g/t	96.45m to 97.55m
VCD 3	1199	1084.5	0.72m @ 1.87 g/t	98.58m to 99.30m
RC 04	1087.5	1021.5	3.5m @ 6.67 g/t	20m to 23.5m

The Company plans to drill-test the depth extension of the Crucera vein, as well as follow the mineralization along strike.

The Company has completed an airborne geophysical survey of the Casupa Project area using Bell Geospace's FTG gravity technology, and with airborne magnetics (1586 line kilometers). The results (which are awaited) will help understand the structural controls operating in the area, and assist with developing a regional mineralization model.

- Mirta Gold Project

The Mirta gold project has been re-activated now that drilling capacity has become available for exploration away from the mine. Drilling results from earlier drilling programs at Mirta have been reported in previous press releases.

However, access problems have now been encountered, and timing in respect of a resumption of work is uncertain.

Mal Abrigo Nickel Project

No work was undertaken on this project during the quarter as geophysical and drilling resources were dedicated elsewhere.

OUTLOOK

The Company plans to maintain plant throughput at an average of 100,000 tonnes per month at an average grade of 2.75 to produce 100,000 ounces of gold for the 2006 financial year. The cash cost per ounce is targeted to be $200/oz per ounce.

The pit wall slip during the quarter will defer mining of some high grade ore at the bottom of the Arenal pit. As a result of this ore grade for the first quarter of 2007 may fall below the Arenal planned average of 2.75 g/t. before returning to planned levels in the following quarter. Mining plans are being prepared to accelerate ore mining at the bottom of the old San Gregorio east pit to provide the ore necessary to maintain the targeted grade. The Company continues to plan to produce 100,000 ounces of gold in the 2007 financial year.

FINANCIAL INSTRUMENTS

The Company 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 has entered into put option contracts on 10,000 ounces at a forward price of $US 400 per ounce and a further 10,000 ounces at a forward price of $US 430 per ounce. To cover the cost of these put option contracts the company has sold call option contracts on 10,000 ounces at a forward price of $US 436 per ounce and a further 10,000 ounces at a forward price of $US 486.5 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 lower value put and call options are delivered first.

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.

RELATED PARTY TRANSACTIONS

The Company has no related party transactions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Pursuant to the acquisition of the net profit interest over tenements of the Minas De Corrales Project the Company may be required to make a contingent payment of $1,050 to the vendor of the interest on July 30 2008. The payment is payable if the average daily price of gold during the 36 month period to 30 June 2008 exceeds $US 400 per ounce. No liability for this potential payment has been recognized.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to make certain estimates which affect the amounts reported in the consolidated statements and related notes. The accounting estimates considered to be significant to the Company include in-process inventories, net future income and resource tax assets and liabilities, the physical and economic lives of mining assets and mine closure and site restoration costs.

Forward Looking Statements

This MD&A contains certain forward-looking statements relating but not limited to the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law

Economic lives of mining assets and recoverable value

The economic lives of The Company's mining operations and any development asset is based upon the individual mine's mineral reserves. The Company's resources and reserves are calculated in accordance with the standards established under the Australasian Institute of Mining and Metallurgy Code of Mineral Resource Estimation, which is the basis of reporting used by the Australian Stock Exchange.

The Company reviews and evaluates the estimated future discounted net cash flows of its mines and development properties to ensure that they exceed the carrying value for each property. These calculations rely on estimated reserves and/or resources, estimated future commodity price and production costs. At each reporting period end, the Company reviews the recoverable value of its mining assets.

Share based Compensation

The Company has chosen to use the fair value method to account for stock-based employee compensation plans. The calculation of this benefit relies on estimates of the anticipate life of the option and the volatility of the company's share price.

Mine closure and site restoration

The Company has estimated the ultimate asset retirement obligation costs for its operations at their expected respective closure and site restoration dates. The discounted value of these asset retirement obligations as at February 28, 2006 was $1,624 and is included in the mine closure and site restoration liability. The unamortized balance of asset retirement costs as at February 28, 2006 is included in property, plant and equipment. While care was taken to estimate the asset retirement obligations, these amounts are estimates of expenditures that are not due until future years. In addition, The Company's asset retirement obligations are reviewed and assessed periodically on an asset by asset basis. Should there be a change in the estimate, the discounted amount of that change would be included in property, plant and equipment as an asset retirement cost with an offsetting amount accrued as an asset retirement obligation. The asset retirement cost would be amortized on a units-of-production basis over the estimated life of the mine while the asset retirement obligation would be accreted through earnings to its ultimate undiscounted amount.

RISK FACTORS

The Company's net earnings in the near-term are affected principally by its mining operations and, in the longer term, will be affected primarily by the success or failure of its exploration and development activities. The Board recognizes that the exploration and development of natural resources is a speculative activity that involves a large numbers of uncertainties, and a degree of financial risk. Accordingly the Board considers the risks to which the Corporation is exposed as part of its regular operations, and keeps these under review.

The principal risks are considered to be those set out below.

Sensitivity to commodity prices and foreign exchange rates

The Company's revenues, net earnings and cash flow from operations are affected materially by changes in the price of gold. Gold has historically been subject to large price fluctuations, and is affected by factors which are unpredictable, including international economic and political conditions, speculative activities, the relative exchange rate of the US dollar with other currencies, inflation, global and regional levels of supply and demand and the gold inventory levels maintained by producers and others.

The Company's gold sales are priced in US dollars while its operating costs are predominantly incurred in US dollars, Canadian dollars and Uruguayan pesos. The Company has financial exposure to foreign exchange fluctuations in the Uruguayan peso and the Canadian dollar relative to the US dollar.

Exploration, Mining and Operational Risks

The Company's longer term strategy depends to a certain extent on its ability to find commercial quantities of minerals within Uruguay, and to obtain and retain appropriate access to these minerals. The Board cannot guarantee that it will be able to identify appropriate properties, or negotiate acquisitions, on favorable terms.

The Company currently has one producing asset, the Minas de Corrales gold project. As more of its projects mature, the Board expects that more projects will develop into producing assets. In common with all mining operations, there is uncertainty, and therefore risk, associated with operating parameters and costs. Whilst costs can be budgeted with a reasonable degree of confidence, operating parameters can be difficult to predict and are often affected by factors outside the Group's control. In addition, other risks, including industrial accidents, technical failures, labor disputes and environmental hazards are also beyond the Group's control.

The nature of resource and reserve quantification studies means that there can be no guarantee that estimates of quantities and grades of minerals will be available to extract. The resources and reserves stated have been quantified according to the Australasian Institute of Mining and Metallurgy Code of Mineral Resource Estimation, which is the basis of reporting used by the Australian Stock Exchange.

The Company's business activities are also affected to varying degrees by government regulations respecting, among other things, tax, royalties, mining legislation and environmental legislation changes.

Title Risks

All prospecting, exploration and mining licenses and titles in Uruguay are granted by the Government of Uruguay for finite periods of time. The Government is bound by strict rules of priority of application, and security of title once granted. However Uruguay is a sovereign state, and there can be no guarantee that the State will continue to grant or respect mining titles, and that the titles of the properties will not be challenged or negated for political or legal reasons.

Individual titles expire from time to time and UME manages the process of retaining its rights by re-application or conversion to other forms of title relevant to each stage of development. The process of re-application involves some risk however, as released titles must fall open before they can be re-applied for.

Political and Economic Risks

Although political conditions in Uruguay are relatively stable, political and economic conditions have not been stable in the countries that surround it. Changes may occur in Uruguay's political, fiscal and legal system that might affect the ownership or operation of the Group's interests, including inter alia, changes in exchange control regulations, expropriation of mining rights, changes of government and in legislative and regulatory regimes.

QUARTERLY RESULTS

Quarterly Results
(in thousands of US$ except where otherwise noted)

	Qtr 3 February 2006	**Qtr 2 November 2005**	**Qtr 1 August 2005**	**Qtr 4 May 2005**	**Qtr 3 February 2005**	**Qtr 2 November 2004**	**Qtr 1 August 2004**	**Qtr 4 May 2004**
Gold sold (ounces)	23,230	23,832	26,049	22,904	17,591	14,397	14,782	6,541
Average sales price ($/oz)	510	456	432	422	428	422	396	360
Cash operating cost ($/oz)	20	182	212	229	245	363	295	297
Operating revenues	12,167	11,326	11,721	10,284	7,874	6,328	6,077	2,512
Net profit interest	-	(329)	(306)	(253)	-	-	-	-
Operating expenses	(5,289)	(4,970)	(5,760)	(5,818)	(4,767)	(5,468)	(4,535)	(1,784)
Contribution Margin	6,878	6,027	5,655	4,213	3,107	860	1,542	728
Administration	(705)	(655)	(592)	(1,015)	(1,348)	(701)	(341)	(366)
Depreciation and amortization	(2,181)	(2,567)	(1749)	(1,785)	(1,293)	(694)	(243)	(183)
Interest and financing costs	(137)	(81)	(93)	(189)	(99)	(71)	(196)	(15)
Stock-based compensation	(176)	(158)	-	-	-	(348)	(408)	-
Fair value adjustment	(937)	(1,215)	(197)	639	831	(1,440)	(210)	
Other	5	730	14	71	11	(41)	48	39
Income Tax	(425)	(137)	(798)	610	-	-	-	
Net income (loss) for the period	2,322	1,944	2240	2,544	1,209	(2,435)	192	203
Basic earnings (loss) per share	0.050	0.042	0.048	0.056	0.022	(0.056)	0.004	.005
Cash flow from (used in) operations	3,599	2,794	4,848	2,173	(316)	(121)	388	(238)
Cash from financing	224	36	168	2,221	2,719	2,258	1,049	5,363
Cash invested	(6,520)	(3,925)	(2,835)	(1,791)	(2,490)	(3,354)	(2,206)	(2,630)
Cash on hand	3,590	6,287	7,382	5,501	2,898	2,985	4,202	3,581
Total Assets	51,963	51,918	46,635	42,651	37,750	34,648	28,648	21,327
Shareholders Equity	40,048	36,236	33,728	31,321	22,481	19,315	21,198	15,067

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.

	Quarter 2 Nov 2004	**Quarter 3 Feb 2005**	**Quarter 4 May 2005**	**Year 2005**	**Quarter 1 Aug 2005**	**Quarter 2 Nov 2005**	**Quarter 3 Feb 2006**
Operating expenses (000)	5,468	4,767	5,818	20,588	5,760	4,970	5,289
Other (000)	317	(134)	(123)	47	(424)	(362)	(131)
Total cash costs (000)	5,785	4,633	5,695	20,635	5,336	4,608	5,158
Gold production in ounces	15,934	18,896	24,844	75,026	25,163	25,323	25,451
Total cash costs per ounce	363	245	229	275	212	182	203

Uruguay Mineral Exploration Inc.
Schedule of Deferred Exploration and Development Costs
(Unaudited)
(Thousands of United States Dollars, except where indicated)

	May 31, 05	Expenditures	Abandonments/ Transfers	February 28, 06
Minas de Corrales Gold Project (1)				
Acquisition	$ 125	746	-	$ 871
Exploration	252	523	-	775
Deferred administration	34	29	-	63
	411	1,298	-	1,709
Base Metals Projects (2)				
Acquisition	105	-	-	105
Exploration	1,806	1,723	-	3,529
Deferred administration	923	101	-	1,024
	2,834	1,824	-	4,658
Other Gold Projects (3)				
Acquisition	480	-	-	480
Exploration	531	4	-	535
Deferred administration	356	-	-	356
	1,367	4	-	1,371
Diamonds Projects (4)				
Acquisition	65	-	-	65
Exploration	96	89	-	185
Deferred administration	28	5	-	33
	189	94	-	283
Regional Exploration (5)				
Acquisition	-	-	-	-
Exploration and overhead	287	-	-	287
	$ 5,088	3,220	-	$ 8,308

No amounts directly related to these projects were expensed.

(1) **Minas de Corrales Gold Project** (MCGP): The MCGP is situated approximately 450 kilometers north of Montevideo and features 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 2004. Arenal, which is now in production, contains an inferred resource of over 750,000 ounces, and is still open at depth. Other known, un-mined 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 within a 50 km radius of the MCGP. This area includes the Zapucay deposit (which has been mined) and the Argentinita deposit, where early exploration results are very encouraging.

(2) **Base Metals Projects:** These include the *Dom Feliciano Mobile Belt* iron/copper/gold project where a substantial belt of copper and gold anomalism has been identified approximately 300 km north-east of Montevideo. This project is currently under review. 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 zones where massive sulphides may have accumulated. At *Lascano*, located approximately 250 kilometers north-east of Montevideo, a very strong gravity high approximately 70 kilometers long by up to 40 kilometers wide is considered to be a capable of hosting Norilsk-style nickel mineralisation. A detailed airborne airmag/gravity survey has just been completed and the results are presently being interpreted. At Carpinteria, which is situated approximately 500 km north of Montevideo, an extensive sequence of komatiitic basalts and ultramafic flows with strong nickel anomalism is currently being evaluated.

(3) **Other Gold Projects**. These include Presidente Terra, which is located approximately 240 kilometers north east of Montevideo, where work conducted during 2000 and 2001 identified high-grade mineralized float over a 12 km strike length of a large gold-mineralized shear system. This project has been on hold due to competing priorities. Mirta, which is located near Colonia in the south-west of Uruguay, is a complex, shear-hosted gold deposit and the company has been assessing the mineralisation controls in order to define further drill targets. 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 ENE of Montevideo, a gold-bearing metamorphosed acid tuff is being investigated. A new gold project Casupa, located 100 km north of Montevideo, has been generated and a drill program is planned for this area.

(4) **Diamonds including Cinco Rios Project.** This project is located in the North of Uruguay and includes the Minas de Corrales area as well as the properties obtained with the acquisitions of Cinco Rios SA. Systematic drainage sampling has identified an area where positive kimberlite indicator minerals are clustered, and a close-space airborne gravity survey is scheduled for May 2006. The company has previously recovered several macro-and micro-diamonds, together with G9 and G10 garnets from this area.

(5) **Regional Exploration.** The company has 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.