

URUGUAY MINERAL EXPLORATION



**Management Discussion & Analysis
for the period ended August 31, 2007**

Prepared as at: October 10, 2007

Management's discussion and analysis ("MD&A") provides a discussion of the Company's financial and operating results for the quarter ended August 31, 2007 with comparisons to previous quarters.

This MD&A accompanies, and should be read in conjunction with, the un-audited interim financial statements of Uruguay Mineral Exploration Inc ("UME" or "Company") for the three month period ended August 31, 2007. 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 2007 and 2006 and the related Management Discussion and Analysis ("MD&A") both of which are available on the Company's website at www.uruguayminerals.com and on SEDAR at www.sedar.com. The Company's financial statements and the financial data presented in this document have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This management discussion and analysis is effective as of October 10, 2007.

SUMMARY OF RESULTS AND SIGNIFICANT EVENTS

Financial highlights for the three months ended August 31, 2007 include:

- Gold production of 18,488 ounces at an average cash cost of \$US 425 per ounce compared to 19,175 ounces at an average cash cost of \$US 332 in the prior financial year.
- Net profit after tax of \$ 1,224 or \$.025 basic earnings per share compared to \$ 2,567 or \$.054 basic earnings per share in the corresponding period of the prior financial year.
- Cash flow from operations was \$4,111 before non-cash working capital movements. This compares to \$ 3,503 in the same period last year.
- Sales were \$ 13,253 and the average price of gold sold was \$ 661 per ounce compared to \$ 12,177 at an average price of \$ 568 in the corresponding period of the prior financial year

Significant events for the three months ended August 31, 2007

- In fill drilling on Veta Sur has been completed and mine planning has commenced. The first step out drilling 400 meters along strike of known mineralization has encountered the structure and anomalous mineralization. Subsequent to the end of the period drilling on the San Antonio prospect, a further 500 meters to the south also encountered mineralization with a best intercept of 5 meters at 8 g/t.
- Drill programs have been developed to test the down dip extensions of San Gregorio and Arenal. An initial program of eight holes to approximately 500 meter depth commenced in September.
- Drill programs have been developed for anomalous zones between Zapucay, and Argentinita and at Papagayo, Tito Lopez and Lavadero in the Zapucay district. These programs will commence when exploration permits are received, which is expected to be in October and November 2007.
- The most significant operational milestone achieved in the quarter was the completion of the diversion of the Arroyo Corrales. Water commenced flowing through the channel at the end of July 2007, whilst construction works on the permanent flood protection dykes was completed in September 2007.
- A strongly anomalous vein system 800 meters long has been defined at Casupa with gold values of up

to 207 g/t. Geophysics and soil sampling will be performed at both Casupa and Cruzera during the current quarter with a drill program expected to be completed early in 2008.

- At Lascano the fifth and final drill hole in the current campaign targeting a near surface gravity anomaly was completed during the quarter. The rocks encountered were predominantly intrusive. A 7,000 to 10,000 meter drill campaign, to be performed by contractors, is planned to commence before the end of the calendar year and be completed by the end of the financial year.
- UME's nickel properties including Mal Abrigo, Paso de Lugo, Carpinteria and Yatay have been reviewed by GeoDiscovery, an external specialized nickel consultant. This review has confirmed that a number of these properties have good exploration potential for nickel and associated elements.

FINANCIAL PERFORMANCE

Sales

Sales of gold for the quarter were \$ 12,547 resulting from the sale of 18,987 ounces of gold at an average price of \$US 661 per ounce. Sales for the corresponding quarter of 2006 were \$ 12,177 which resulted from the sale of 20,809 ounces of gold at an average price of \$ 568 per ounce. Silver sales for the quarter were \$ 374 compared to \$ 399 in the corresponding quarter of the prior financial year. Export cost refunds received during the quarter were \$ 331 compared to \$ 277 in the corresponding quarter of the prior financial year.

Net Income

Net profit after tax for the quarter was \$ 1,224 or basic earnings per share of \$ 0.025. This compared to a profit of \$ 2,567 or basic earnings per share of \$ 0.054 for the first quarter of 2006. Operating profit for the quarter was \$ 2,518 compared to \$ 3,413 in the corresponding quarter of the prior year.

Net profit after tax was lower in the current year than the prior year due to higher operating costs and lower sales volumes. This was partially offset by higher sales prices and the corresponding quarter of the prior financial year benefited from a gain of \$ 1,247 on the fair value adjustment for derivatives.

Metal Production

During the quarter 326,974 tonnes of ore at an average grade of 1.92 g/t were processed at San Gregorio to produce 18,488 ounces of gold. The decrease in head grade for the current quarter compared to the average of 2.45 g/t for prior financial year was attributable to lower grade being processed pending access to the expanded Arenal pit and lower grade material being encountered in the initial benches at Arenal directly below the original Arroyo Corrales stream. The benches directly beneath the Arroyo Corrales could not be drilled due to access difficulties and differed to the standard density as other zones of Arenal and was an area of predominantly Probable Reserve. Despite the lack of high grade, the same area produced 40% more ore tonnes at lower grades to result in a net contained gold metal increase of 977oz. These tonnes will be processed in the future in accordance with optimised metal production. As mining progressed in this area,

Uruguay Mineral Exploration Inc.
Management Discussion and Analysis
August 31, 2007

(Thousands of United States Dollars, except where indicated)

excavation advanced through areas of higher exploration drill density and the reconciliation between production and geological estimation had returned to normal acceptable variance.

Recovery for the quarter was 91.51% higher than the 90.6% in the corresponding quarter of the prior year but decreased from 93.10% compared to fiscal year as of May 2007 as a consequence of the lower head grade explained above. This was further exacerbated by the elevated Ag/Au ratio that is usually experienced when higher proportions of Arenal low grade material is fed to the process plant.

The completion of the river diversion channel was performed during this quarter. Water commenced flowing through the channel at the end of July 2007, whilst construction works on the permanent flood protection dykes continued and progressive environmental reclamation commenced. During August 2007, significant rainfall events resulted in minor flooding, but the dykes were substantially higher than the water levels experienced and demonstrated their integrity as no infiltration occurred.

At the start of the quarter, ore stocks were scarce as additional tonnes from Arenal relied on completion of the diversion of Arroyo Corrales. By the end of the quarter, access to the western portion of Arenal had presented significant ore stocks and excavation is out-pacing processing. During the quarter 365,000 tonnes of ore and 2,196,000 tonnes of waste were mined from Arenal, the Vetas, San Gregorio and Santa Teresa.

Mining production from the Vetas was reduced in the quarter due to contractor focus on the diversion of the Arroyo Corrales and completion of extension exploration drilling in those areas. A significant addition of Veta A high grade ore has been defined (as shown in the recent Reserve statement) and this will provide supplemental feed from the end of the second Quarter.

Production statistics summarized below.

Quarterly production statistics

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	Nov-05	Feb-06	May-06	Aug-06	Nov-06	Feb-07	May-07	Aug-07
Ore processed (tonnes)	312,881	313,967	327,665	315,309	322,214	331,058	344,417	326,974
Head Grade (g/t Au)	2.71	2.68	2.51	2.09	2.09	2.79	2.81	1.92
Recovery	93.2%	93.9%	92.4%	90.6%	92.6%	94.1%	94.2%	91.5%
Gold produced (ounces)	25,323	25,451	25,350	19,175	20,059	27,921	29,265	18,488

Expenses

Operating expenses were \$ 8,323 in the quarter. Cash cost per ounce for the quarter were \$ 425 per ounce. For the corresponding quarter of the prior financial year operating expenses were \$ 6,749 after deferring \$ 354 in deferred stripping costs. Cash cost per ounce for the corresponding quarter of the prior financial year were \$ 332 per ounce. Cash costs were higher than the corresponding quarter of the prior financial year due to lower production for the quarter.

Uruguay Mineral Exploration Inc.
Management Discussion and Analysis
August 31, 2007

(Thousands of United States Dollars, except where indicated)

As mentioned on page 9 of this MD&A, the Company adopted EIC 160 "Deferred Stripping Costs Incurred in the Production Phase of a Mining Operation". This standard requires that the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of operations be charged to income in the period in which they are incurred. Previously, the Company amortized these costs over the life of mine using a waste to ore stripping ratio and from June 1st 2007 onwards the Company will amortize deferred costs over the remaining life of the Arenal pit using the unit of production method.

The impact of applying EIC 160 was to decrease the operating costs used as the basis for the Company's cash cost calculation relative to the operating costs under the previous method by \$136. Had the previous method of calculating operating costs been used, the cash costs per ounce would have been \$432 per ounce.

The table opposite reconciles cash cost per ounce in the current quarter with the average for the prior financial year.

	3 Months to August 2007
Cash cost as of May 07	\$294
Reduced production	99
Cost increases	32
Cash cost as of Aug 2007	\$425

Amortization and depreciation expense was \$ 2,412 for quarter compared to \$ 2,015 in the prior year.

Other Revenues and Expenses

Corporate expenses were \$ 1,011 for the quarter compared to \$ 936 for the corresponding quarter of the prior financial year. Uruguay capital taxes included in corporate costs were \$ 63 for the quarter compared to \$ 118 in the corresponding period of the prior financial year.

The current quarter does not include any results for the fair valuation gold financial derivatives, as all financial derivatives have been cancelled. The corresponding quarter of the prior year included a gain of \$ 1,247.

During the quarter no options were granted. The stock option expense for the quarter was \$ 192 against \$ 251 for the corresponding quarter of the prior year.

FINANCIAL POSITION

Cash and other liquid resources

Cash decreased from \$ 13,978 at May 31 2007 to \$ 11,631 at 31 Aug 2007. Cash flow from operations for the quarter was \$ 4,161 after a contribution of \$ 50 for non-cash working capital items. This compared to \$ 3,225 after using \$278 from non-cash working capital items in the corresponding quarter of the prior year.

Capital Expenditure

Expenditure on property plant and equipment for the quarter was \$ 4,747 to February 2007. Payments for the quarter included \$1,796 for pre-stripping of the Corrales river diversion, \$1,050 for net profit interest payment (see note 4 (a) of the Financial Statements as of 31 August 2007), \$700 for the purchase of two Komatsu trucks and \$528 for the purchase of a Pantera 1500 drilling machine for mining operations and other payments.

Exploration expenditure was \$ 2,308 for the quarter with \$ 1,276 invested in near mine exploration activities and exploration within the Isla Cristalina and \$639 invested on other gold projects in the Florida and Don Feliciano Belts. A further \$171 was invested in the Lascano project and \$222 on diamonds.

Financing

During the quarter 395,333 employee options were converted into shares to provide proceeds of \$ 593. At August 31, 2007 UME had outstanding 250,000 options on convertible notes, exercisable up to July 30 2008 at C\$ 4.20 and 20,000 options exercisable up to 22 March 2009 at C\$ 4.56. There were also, 2,904,000 outstanding stock options exercisable up to April 9 2012 at a weighted average exercise price of C\$4.38 (1,389,333 of which have vested) and 48,926,268 common shares outstanding.

OUTLOOK

The Company plans to produce 95,000 ounces of gold for the 2008 financial year at a cash cost per ounce target of \$US 345.

FINANCIAL INSTRUMENTS

UME does not enter into financial instruments for trading or speculative purposes. The levels of derivatives contracts the Company have entered into in the past had been consistent with forecast production.

No outstanding hedge commitments existed at 31 August 2007.

RELATED PARTY TRANSACTIONS

The Company has no related party transactions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company's contractual obligations and commitments are as follows

	Total	Less than 1 Year	1-2 Years	2-3 years	3-4 years	4-6 Years
Convertible notes	2,100	2,100	-			
Finance Lease	353	188	150	15		
Asset Retirement Obligations	2,044		70	137	234	1,603
Total	4,497	2,288	220	152	234	1,603

On March 23, 2007, in accordance with an agreement with Delcosur the Company issued 20,000 non-transferable warrants to purchase common shares of the Company. The Company is required to spend \$ 1,050 on exploration over three years to exercise its option to acquire 100% of Delcosur tenements. Upon exercise of the option by the company Delcosur will be entitled to receive a net smelter return royalty of 1% from any gold production from the properties acquired from Delcosur. (See note 3 (a) of the Financial Statements).

On May 22, 2007 the Company executed with ABN AMRO NV Sucursal Montevideo a guarantee letter by which a line of credit of \$ 2,500 was granted to the Company to be used for trade facilities, leasing, issuance of guarantees and general purposes. As of August 31 2007, \$ 353 was drawn for vehicle leasing, \$1,220 was used for the issuance of guarantees for exploration permits and \$ 230 was used for letter of credit facilities. (See note 4 (a)) of the Financial Statements).

Uruguayan mining and environmental legislation requires environmental obligations to be supported by guarantees. As a result, a rehabilitation guarantee letter of credit of \$ 1,500 has been provided by Macquarie Bank.

Under the terms of the agreement with Southern Era Diamonds Inc the Company has an obligation to pay a royalty of 1% on any net diamond sales from any diamond deposit discovered by the Company in Uruguay.

There were not new obligations or commitments executed during the quarter

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may vary from related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

Economic lives of mining assets and recoverable value: The economic lives of the Company's mining operation and development assets is based upon the individual mine's mineral reserves. The Company's resources and reserves are calculated in accordance with mining standards and in compliance with NI 43-101 requirements, and the Company reviews and re-evaluates the estimated future discounted net cash flows of its mines and development properties on a regular basis, 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 cost;

Inventory: the value assigned to ore stockpiles, in process inventories and finished metal inventories are based on estimated volumes and grades. Volume and grade estimates are made relying on assays and other sampling tests;

Asset retirement obligation: the fair value of the liability is determined based on the net present value of estimated future costs done by management based on feasibility and engineering studies on a site by site basis. The discounted value of these asset retirement obligations as at May 31 2007 was \$ 2,044 and is included in the mine closure and site restoration liability. The \$ 458K unamortized balance of asset retirement

costs as at May 31, 2007 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;

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 anticipated life of the option and the volatility of the company's share price;

Net future income tax assets and liabilities: Significant judgment is required in determining the worldwide provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences may impact the carrying amount of future income taxes;

Deferred stripping costs: The Company defers stripping cost incurred over the estimated average strip ratio for each mine life. This policy is applied when the Company is able to estimate a mine plan for the pit to determine future strip ratio fluctuations and average strip ratio for the mine life;

Exploration and evaluation expenditure: The recoverability of amounts shown for capitalized exploration and evaluation expenditure is dependant upon the discovery of economically recoverable reserves. At May 31, 2007, UME wrote down the carrying value of exploration assets of \$2,129 as a result of limited investment planned in the near future for Don Feliciano base metals projects and general regional exploration expenditure. During the quarter \$2043 was transferred to mine properties. (See Deferred Exploration and Evaluation Costs).

CHANGES IN CANADIAN ACCOUNTING RECOMMENDATIONS

Financial Instruments, Comprehensive Income and Hedges.

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis.

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method;
- All derivative financial instruments are measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-

sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Deferred Stripping

The new recommendations of the Canadian Institute of Chartered Accountants with respect to stripping charges, EIC 160 Stripping Costs Incurred in the Production Phase of a Mining Operation ("EIC 160") require the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations to be charged to income in the period in which they are incurred, except when the costs represent a betterment to the mineral property. Costs represent a betterment when the stripping activity provides access to reserves that would not have been accessible in the absence of the stripping activity. When costs are deferred in relation to a betterment, the costs are amortized over the reserves accessed by the stripping activity using the units of production method.

The new policy has been applied on a prospective basis to stripping costs incurred since 1st June 2007. The previously accumulated capitalized costs are included in PP&E and will be amortized over the reserves not yet produced that will directly benefit from the stripping activity using the units of production method. Consistent with previous practice, the charge will be recorded as a component of operating expenses.

Accounting Changes

CICA Handbook Section 1506: Accounting Changes ("CICA 1506") effective for fiscal years beginning on or after January 1, 2007 establishes standards and new disclosure requirements for the reporting of changes in accounting policies and estimates and the reporting of error corrections. CICA 1506 clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application of prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to the assets and liabilities of the earliest period practicable, with a corresponding adjustment made to opening retained earnings. The impact is nil.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Corporation's President and Chief Executive

Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, our Continuous Disclosure Policy Procedure, our Code of Business Conduct and Ethics, our Insider Trading Policy and Share Trading Code and Price Sensitive Information Policy, our Whistleblower Policy, Release of Public Information Policy and the effective functioning of the Audit Committee and Board of Directors.

As at the end of the period covered by this management's discussion and analysis, management of the Corporation, with the participation of the President and CEO and the CFO, does not expect that the Corporation's Disclosure Controls will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud and error, if any, within the Corporation have been detected.

As at the end of the period covered by this management's discussion and analysis, management of the Corporation, with the participation of the CEO and the CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Corporation's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the President and CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

Multilateral Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined therein, for the Corporation, that the ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP, and that the Corporation has disclosed any changes in its ICFR during its most recent interim period that has materially affected, or is reasonably likely to materially affect its financial reporting.

As discussed above, the inherent limitations in all controls systems are such that they can provide only reasonable, not absolute, assurance that all controls issues and instances of fraud or error, if any, within the Corporation have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

During the period covered by this management, discussion and analysis, the Corporation's senior management, including CEO and CFO, evaluated the existence and design of the Corporation's ICFR and

confirm there were no changes to the ICFR that have occurred during the financial year ended May 31st, 2007 which materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

RISKS AND UNCERTAINTIES

UME'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

UME'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.

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

Key Personnel Risks

Recruiting and retaining qualified personnel is critical to UME's success. The number of skilled mining and exploration professionals in Uruguay is limited and competition for such persons is intense in the global mining industry. As the UME's business activity continues to grow, it will be required to hire additional personnel and retain the services of key personnel. Although UME believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

Exploration, Mining and Operational Risks

UME'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.

UME 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 cuts in electricity supply,

fuel supply shortages, 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 figures for reserves and resources estimates are determined in accordance with National Instrument 43-101, issued by the Canadian Securities Administrators. This National Instrument lays out the standards of disclosure for mineral projects including rules relating to the determination of mineral reserves and resources

The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate or adequately mitigate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. There is no assurance that commercial quantities of ore will be discovered on any of UME's exploration properties. There is no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. In addition, assuming discovery of a commercial ore-body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced

The Arroyo (Stream) Corrales is being diverted to allow expansion of the Arenal Pit. There is a risk of water ingress into the pit as a result of this diversion. Geotechnical studies and detailed field investigation during diversion construction has identified no permeable structures that could permit significant water flow between the river diversion and the Arenal pit. Together with the 100m spacing between the river diversion and the designed ultimate pit crest of Arenal, the probability of significant water inflow into the open pit is considered to be low. This will continue to be monitored and dealt with on an operational level via standard industry counter measures should any unforeseen inflow occur.

The flood protection dykes are built to a 1 in 1,000 year rainfall criteria and need to protect the Arenal open pit operations for 3 years. Whilst statistically this design criteria is considered to be adequate, there can be no guarantee that a 1 in 1,000 year flood event does not occur within the next three years. Obviously the operational impact of such a rainfall event is dependent upon its size, but historically large flooding events are of short duration with water levels peaking after much warning. Such events do not pose a significant risk to personnel or equipment; however contingency plans for pit recovery through pumping are to be evaluated.

The Company's business activities are also affected to varying degrees by government regulations respecting, among other things, tax, royalties, utilities service supply, 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.

Uruguay Mineral Exploration Inc.
Management Discussion and Analysis
August 31, 2007

(Thousands of United States Dollars, except where indicated)

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

Political conditions in Uruguay stable. Changes may however 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 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1 (a)
	Nov 2005	Feb 2006	May 2006	Aug 2006	Nov 2006	Feb 2007	May 2007	Aug 2007
Gold sold (ounces)	23,832	23,230	27,284	20,809	20,416	24,731	31,550	18,987
Average sales price (\$/oz)	456	510	543	568	565	638	658	661
Cash operating cost (\$/oz)	182	203	243	332	345	253	273	(a) 425
Operating revenues	11,326	12,167	15,992	12,177	12,433	16,606	21,840	13,253
Net profit interest	(329)	-	-	-	-	-	-	-
Operating expenses	(4,970)	(5,289)	(5,995)	(6,749)	(7,676)	(7,374)	(9,738)	(8,323)
Contribution Margin	6,027	6,878	9,997	5,428	4,757	9,232	12,102	4,930
Administration expenses	(813)	(881)	(2,650)	(1,187)	(1,282)	(1,507)	(1,346)	(1,203)
Amortization and depletion	(2,567)	(2,181)	(2,245)	(2,015)	(1,909)	(2,331)	(2,497)	(2,412)
Interest and financing costs	(81)	(137)	(28)	(88)	(82)	(79)	(65)	79
Other	(485)	(932)	286	1,275	1,121	75	(1,998)	13
Income Tax	(137)	(425)	(1,283)	(846)	(854)	(1,491)	141	(183)
Net income for the period	1,944	2,322	4,077	2,567	1,751	3,899	6,337	1,224
Basic earnings per share	0.042	0.05	0.09	0.054	0.036	0.08	0.13	0.025
Cash flow from (used in) operations	2,794	3,599	7,445	3,225	3,672	4,840	13,621	4,161
Cash from (used for) financing	36	168	1502	1,119	(1,532)	365	(837)	547
Cash invested	(3,925)	(6,520)	(3,606)	(4,730)	(4,883)	(3,211)	(6,602)	(7,055)
Cash on hand	6,287	3,590	8,931	8,545	5,802	7,796	13,978	11,631
Total Assets	51,918	51,963	60,008	62,651	62,725	66,177	74,941	76,869
Shareholders Equity	36,236	40,048	45,239	48,639	50,627	54,306	60,868	61,252

(a) As mentioned on Section "Changes in Canadian Accounting Recommendations - Deferred Stripping", the impact of applying EIC 160 was to decrease the operating costs used as the basis for the Company's cash cost calculation relative to the operating costs under the previous method by \$136. Had the previous method of calculating operating costs been used, the cash costs per ounce would have been \$432 per ounce.

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 Amortization and depletion. (See Changes in Canadian Accounting Recommendations – Deferred Stripping)

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

	Quarter 3 Feb 2006	Quarter 4 May 2006	Quarter 1 Aug-06	Quarter 2 Nov-06	Quarter 3 Feb-07	Quarter 4 May-07	Quarter 1 Aug-07 (a)
Operating expenses (000)	5,289	5,995	6,749	7,676	7,374	9,738	8,323
Other (000)	(131)	168	(383)	(756)	(303)	(1,748)	(471)
Total cash costs (000)	5,158	6,163	6,366	6,920	7,071	7,990	7,852
Gold production in ounces	25,451	25,350	19,175	20,059	27,921	29,265	18,488
Total cash costs per ounce	203	243	332	345	253	273	425

(a) As mentioned on Section "Changes in Canadian Accounting Recommendations - Deferred Stripping", the impact of applying EIC 160 was to decrease the operating costs used as the basis for the Company's cash cost calculation relative to the operating costs under the previous method by \$136. Had the previous method of calculating operating costs been used, the cash costs per ounce would have been \$432 per ounce.

Forward Looking Statements

Certain information contained in this Management Discussion and Analysis constitutes "forward- looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and forward looking information under applicable Canadian Securities Legislation. Such forward-looking statements or information, included but not limited to those with respect to prices for gold, estimated future production, estimated costs of production, the Company's hedging policy involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements or information. Important factors that could cause actual results to differ materially from those in the forward looking statements contained herein include among others, gold price, weather, exploration results,

Uruguay Mineral Exploration Inc.
Management Discussion and Analysis
August 31, 2007

(Thousands of United States Dollars, except where indicated)

development and mining activities, geotechnical assumptions, environmental approvals and the availability of technical personnel.

Uruguay Mineral Exploration Inc.
Schedule of Deferred Exploration and Evaluation Costs
(Unaudited)

(Thousands of United States Dollars, except where indicated)

DEFERRED EXPLORATION AND EVALUATION COSTS

The following table summarizes expenditure on exploration and evaluation costs during the financial year.

Project Area	Balance 31 May 2007	Transfer to Mine Properties	(Write off)	Expenditure 1 Q 2007	Balance 31 August 2007
Isla Cristalina Belt	\$ 8,492	(2,043)	-	<u>1,276</u>	<u>7,725</u>
Florida /Arroyo Grande Belts	1,541	-	-	<u>544</u>	<u>2,085</u>
Don Feliciano Belt	3,025	-	-	<u>95</u>	<u>3,120</u>
Lascano	2,122	-	-	<u>171</u>	<u>2,293</u>
Diamonds	1,136	-	-	<u>222</u>	<u>1,358</u>
Total	\$ 16,316	(2,043)	-	<u>2,308</u>	<u>16,581</u>

The Company spent \$ 2,308 during the quarter. This compares to \$1,376 for the corresponding quarter of 2006. During the quarter evaluation costs of \$2,043 performed on Arenal pit were transferred to Mine properties. (See note 2 of the Financial Statements as of August 31, 2007)

Each of the major project areas is described below. Details of work performed in this quarter are included in the Company's Exploration Report for the quarter ended 31 August 2007.

Isla Cristalina Belt ("ICB"):

The Isla Cristalina Belt is located 450 km from Montevideo in Northern Uruguay and hosts the Company's one operating gold mine at San Gregorio, in the Minas de Corrales District. This belt is an erosion window into the crystalline Proterozoic basement rocks of northern Uruguay, approximately 110km in length and 40 km in width. The belt of rocks is composed of Proterozoic granites and greenstones ranging in metamorphic grade from greenschist to amphibolite facies. Anomalous gold mineralization exists across the entire 110 km strike length of the belt. Measured and Indicated resources within the belt are 825,700 ounces with inferred resources of 92,640 ounces. Life to date production from the belt is estimated to be 755,500 ounces.

Florida /Arroyo Grande greenstone belts (Piedra Alta Terrain)

The Florida and Arroyo Grande greenstone belts are composed of Proterozoic meta-volcanic and meta-sedimentary rocks which are hosted in granitic terrain of the Rio de La Plata Craton. This group of rocks is referred to as the Piedra Alta terrain in Uruguay and occupies the south western third of the country. This set of rocks is exposed for 240 kilometers from the western side of the Don Feliciano Mobile Belt to nearly the western border of the country. Exposure of these rocks can be seen locally along the coast line in Montevideo and north 175 kilometers where they are covered by younger Paleozoic and Mesozoic sediments and basaltic lava flows. UME has six gold exploration projects in the Piedra Alta Terrain including Casupa/Crucera, Paso de Lugo, and Nueva Helvecia. Projects are hosted in granitic rocks as well as green stone terrains.

Uruguay Mineral Exploration Inc.
Schedule of Deferred Exploration and Evaluation Costs
(Unaudited)

(Thousands of United States Dollars, except where indicated)

Don Feliciano Belt

The southern end of the Don Feliciano mobile belt lies 95 kilometres east of Montevideo and trends north-northwest. The belt is exposed for over 250 kilometres along strike and is 40-50 kilometres in width. Younger Paleozoic sedimentary rocks cover the northern third of the belt in Uruguay. The belt of rocks is defined by a structurally deformed Proterozoic meta-sediments, schist and granitoids which are bound on the east and west by two major north trending shears. The mobile belt formed as a result of the collision between South America and Africa at the end of the Proterozoic period. Limited historic precious and base metal mining is reported from the belt. UME has a number of precious metal projects located within this belt of rocks including Presidente Terra, Bragado, and Texas. Lead, Zinc and Nickel properties such as Retamosa, Isla Patrulla and Maria Albina are also located within this belt.

Lascano

The Lascano project is located 240 kilometres northeast of Montevideo in the Laguna Marin basin. The project is defined by three large circular, 20 kilometres in diameter, geophysical anomalies. Surface out crop is limited over the anomalies. The anomalies were defined by results from an airborne geophysical survey completed by Bell Geophysical. Drilling this last year has defined lithology which underlies the central anomaly. Units encountered to date include felsic to mafic intrusive rocks that intrude a thick package of vesicular basalt. Minor intermediate and felsic volcanic rocks are also present to a lesser extent. Rock units encountered outside the anomaly are predominately conglomerates and sandstones composed of clasts from the units with in the anomaly and overly intermediate to felsic volcanic units.

Cinco Rios Diamond Project

The Cinco Rios diamond project is located on the Rio de la Plata craton in the departments of Rivera and Tacuarembó in northern Uruguay, approximately 500 kilometres north of Montevideo. The 100% owned land package is 55,700 hectares in size. The potential for kimberlite discovery in northern Uruguay is shown by the historic recovery of alluvial micro- and macro-diamonds, and peridotitic and eclogitic garnets and chrome spinels during the period 1993 – 2004. The current exploration programme, which commenced at the beginning of 2006, has included follow up sampling, geophysical, and geomorphic studies which have further defined possible source areas. Kimberlite pipe drill targets have been identified from geophysical and geomorphic studies which have associated indicator mineral anomalies. . These targets will be drilled before the end of 2007.