

URUGUAY MINERAL EXPLORATION



**Management Discussion & Analysis
for the period ended February 29, 2008**

Prepared as at: 9th April, 2008

Management's discussion and analysis ("MD&A") provides a discussion of the Company's financial and operating results for the quarter ended February 29, 2008 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 February 29, 2008. 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 9th April 2008.

1. DESCRIPTION OF BUSINESS

Uruguay Mineral Exploration Inc is a gold producer and exploration company incorporated in Canada and operating in Uruguay. The Company's common shares are listed on the Toronto Venture Stock Exchange (symbol UME) and the London Alternative Investment Market (symbol UGY).

The Company operates the only producing gold mine in Uruguay, in the northern Department of Rivera. It has been exploring in Uruguay since 1996 having assembled an exploration portfolio based on gold, base metals and diamonds prospects. In the first half of 2003, the Company discovered the Arenal deposit, currently the largest known gold resource in Uruguay. The Company believes that Uruguay has great, and so far largely unexplored, potential for the discovery and economic production of a variety of mineral resources.

Production for the 2006/07 financial year was 96,420 ounces of gold from the San Gregorio operation. The Company strategic objectives are to increase gold production through exploration, development and acquisition. The group has significant land holdings throughout Uruguay and has active near mine and regional exploration programmes focused on increasing gold reserves.

2. HIGHLIGHTS

Financial highlights for the three months ended February 29, 2008 include:

- Gold production of 25,150 ounces at an average cash cost of \$US 342 per ounce compared to 27,921 ounces at an average cash cost of \$US 253 in the corresponding quarter of the prior financial year.
- Net profit after tax was \$ 5,942 or \$.12 basic earnings per share compared to \$ 3,899 or \$.08 basic earnings per share in the corresponding period of the prior financial year.
- Cash flow from operations was \$ 8,671 before non-cash working capital movements. This compares to \$ 5,641 in the same period of the prior financial year.
- Sales were \$ 22,220 with an average price of gold sold of \$ 888 per ounce compared to \$ 16,606 at an average price of \$ 638 in the corresponding period of the prior financial year
- An interim dividend of CAD 2.0 cents will be paid in April 2008.

Financial highlights for the nine months ended February 29, 2008 include:

- Gold production of 69,931 ounces at an average cash cost of \$US 375 per ounce compared to 67,155 ounces at an average cash cost of \$US 303 per ounce in the prior financial year.
- Net profit after tax of \$ 11,535 or \$.24 basic earnings per share compared to \$ 8,217 or \$.17 basic earnings per share in the corresponding period of the prior financial year.
- Cash flow from operations was \$ 21,263 before non-cash working capital movements. This compares to \$ 12,821 in the same period last year.
- Sales were \$ 56,653 and the average price of gold sold was \$ 777 per ounce compared to \$ 41,216 at an average price of \$ 593 in the corresponding period of the prior financial year.

Summary of significant exploration and development events for the nine months ended February 29, 2008:

- A program of nine holes has now tested the depth extension to the Arenal deposit to a vertical depth of approximately 450 meters. The best results to date have been encountered in the down plunge zone to the south east of the main ore body. The three holes drilled in this area show the shear zone to be 50 to 80 meters in width. The intercepts encountered have been 1 to 1.5 g/t with narrower higher grade zones near the hanging wall and foot wall of the shear zone. In hole ALDD077 38.9 meters of mineralization was intercepted at 1.23 g/t. The grade of these intercepts is unlikely to justify the development of an underground operation. Three additional holes will however be drilled in this down plunge area to target higher grade mineralization.
- At San Gregorio the three initial holes encountered a steep structure with 3 to 4 meters widths averaging 3 to 4 g/t. The program has now continued along strike to Rieles. The initial two holes have intercepted 5.9 meters of 2.39 g/t and 2.95 meters at 1.59 g/t. These intercepts should help firm up the resource in this area of the Rieles deposit.
- During the quarter the Polvorín anomaly in the footwall of the San Gregorio structure north east of the Santa Teresa deposit was drilled targeting a high grade vein deposit. The best results were 3 meters at 19.61 g/t, including 1 meter of 55.56 g/t from 116 meters and 5 meters of 5.8 g/t from 76 meters. Follow-up diamond drilling is now planned to define the extent of the mineralization.
- Drilling south of Zapucay on trend to Argentina returned mostly narrow mineralization with the best intercepts of 13 meters at 1.6 g/t and 4 m at 1.75 g/t. Drilling around the Zapucay deposit was completed to augment the remnant resource around the old mine site. An in house resource will be developed from this recent drilling and historic data. Drilling on Papagayo during the quarter failed to define significant mineralization. No further work is planned for this prospect.
- Soil sampling and geophysics over a 14 km square area near Vichadero is approximately 50 percent completed, and strongly mineralized rock chip samples have been identified during the collection of soil samples. Drill targets at Vichadero are expected to be defined in the last quarter of 2008.
- At Presidente Terra geophysical surveys, soil sampling and trenching on initial targets was completed by the end of March. Results of this work will be received in April and will be used to refine drill programs that are now expected to commence in the second half of April. Exploration permits and land access has been granted.

- At Nueva Helvecia the additional 6 holes drilled during the quarter were disappointing with only one intercept of 3 meters at 1.2 g/t. The project is now being reviewed prior to one final round of drilling later in the year.
- A contract has been signed for drilling at Lascano with an anticipated 8,000 meters of diamond drilling, commencing during April. Exploration permits and land access agreements have been received for the first 5 holes. Seven exploration permits have been filed for the remaining seven holes and land access agreements are being negotiated.

For more detailed information on the Company's exploration activities for the quarter, please refer to the Exploration Report for the Quarter ended February 29, 2008 on the company's website.

3. FINANCIAL RESULTS

Operating Revenues

Operating revenues include gold sales, silver sales and export cost refunds granted by the Government of Uruguay for the export of doré bars.

Sales of gold for the quarter were \$ 21,078 resulting from the sale of 23,746 ounces of gold at an average price of \$US 888 per ounce. Sales for the corresponding quarter of 2007 were \$ 15,802 which resulted from the sale of 24,731 ounces of gold at an average price of \$ 638 per ounce.

Sales of gold for the nine month period were \$ 53,750 resulting from the sale of 69,194 ounces of gold at an average price of \$US 777 per ounce. This compares to \$ 39,017 in the corresponding period of the prior year, which resulted from the sale of 65,956 ounces of gold at an average price of \$ 593 per ounce, less pre-stripping costs per \$ 144.

Silver sales for the quarter were \$ 697 compared to \$ 330 in the corresponding quarter of the prior financial year. Silver sales for the nine month period were \$ 1,667 compared to \$ 1,173 in the corresponding period of the prior financial year

Export cost refunds received during the quarter were \$ 445 compared to \$ 474 in the corresponding quarter of the prior financial year. Export cost refunds received for the nine month period were \$ 1,236 compared to \$ 1,026 in the corresponding period of the prior financial year.

Operating Earnings

Net profit after tax for the quarter was \$ 5,942 or basic earnings per share of \$.12. This compared to a profit of \$ 3,899 or basic earnings per share of \$.08 in the same period of the prior financial year.

For the nine months to February 29, 2008 net profit after tax was \$ 11,535 or basic earnings per share of .24, compared to a profit of \$ 8,217 or basic earnings per share of \$.17 for the corresponding period of the prior year. The corresponding nine month period of the prior financial year included a benefit of \$ 2,317 from the fair value adjustment for derivatives.

The net profit after tax increase largely reflects higher sales price per ounce of gold sold.

Production

During the quarter 313,340 tonnes of ore at an average grade of 2.71 g/t were processed at San Gregorio to produce 25,150 ounces of gold. Consistent gold production levels are expected in the final quarter to achieve the annual forecast of 95,000 ounces. This was achieved despite slight reductions of process throughput and gold recovery from budgeted targets. Within high grade zones, ore reconciliation to reserve estimates has been good and a modest increase in the quantity of low grade ore is being realized.

Recovery for the quarter decreased to 92.2% as a consequence of the reduced head grade and the relative increase in the quarter's Ag/Au ratio. Total throughput increased by 7% from the previous quarter as the Veta feed stock became available. As a consequence, unit processing costs reduced.

Civil works on the river diversion channel were completed during the quarter with only minor revegetation projects being continued.

Acceleration of the mine plan employed at MSG continues to increase the stockpile of lower grade ores for later processing. At the end of the quarter, 482,000 tonnes of ore at 1.18 g/t were stockpiled close to the process plant. During the quarter 614,000 tonnes of ore and 2,877,000 tonnes of waste were mined from Arenal, the Vetás, San Gregorio and Santa Teresa.

Mining production from the Vetás recommenced in the quarter with significant stripping being completed that enabled high grade ore feed by the end of the quarter. This allowed for a considerable increase in the rate of process throughput in comparison to previous months. Additional high grade ore from the Vetás will continue into the final quarter of the year.

During the quarter, construction continued on Phase 7 of the Tailings Storage Facility. This work is currently in line with the required schedule, to be operational in Quarter 4 of this year.

Production statistics are summarized below.

Quarterly production statistics

	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	May-06	Aug-06	Nov-06	Feb-07	May-07	Aug-07	Nov-07	Feb-08
Ore processed (tonnes)	327,665	315,309	322,214	331,058	344,417	326,974	293,657	313,340
Head Grade (g/t Au)	2.51	2.09	2.09	2.79	2.81	1.92	3.00	2.71
Recovery	92.4%	90.6%	92.6%	94.1%	94.2%	91.5%	93.0%	92.2%
Gold produced (ounces)	25,350	19,175	20,059	27,921	29,265	18,464	26,317	25,150

Expenses

Operating expense was \$ 9,863 for the quarter including \$ 619 of previously deferred stripping costs. Cash cost per ounce for the quarter was \$US 342 per ounce. For the corresponding quarter of the prior financial year operating expense was \$ 7,374 after deferring \$ 341 in stripping costs. Cash cost per ounce for the corresponding quarter of the prior financial year was \$ US 253 per ounce.

For the nine month period operating expense was \$ 28,768, of which \$ 1,854 correspond to expenses previously deferred as stripping costs. Cash cost per ounce for the nine month period was \$US 375. In the corresponding period of the prior financial year operating expense was \$ 21,799 after deferring \$ 1,354 in deferred stripping costs with a cash cost per ounce of \$US 303 per ounce.

As noted in section 10 of this MD&A, under the subtitle "Deferred stripping", 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 ("stripping costs") be charged to income in the period in which they are incurred, except when the costs represent a betterment to the mineral property. The new policy was adopted effective June 1 2007 and applied on a prospective basis. Previously, the Company deferred the portion of the waste removal costs incurred to gain access to an ore body when those costs were higher with respect to those arising from applying the expected average stripping ratio. The amount deferred was subsequently amortized to operating expenses when the actual stripping ratio fell below the expected average stripping ratio.

The previously accumulated deferred costs as at June 1 2007 of \$ 4,829 are being depreciated over the remaining reserves accessed by the stripping activities, using the units of production method. Depreciation continues to be charged to operating expenses consistently with previous practice.

As a result of applying EIC 160 operating expense decreased by \$ 235 for the nine month period and by \$ 665 for the quarter. This is due to the fact that while under the previous accounting policy the actual strip ratio during the quarter fell below the expected life of mine strip ratio, the deferred stripping asset under policy EIC 160 was depreciated on the basis of gold contained in ore produced during the quarter. The comparison of operating costs and cash cost per ounce under the different accounting policies is shown in the table below.

	Three month period ended February 29, 2007		Nine month period ended February 29, 2007	
	Result applying EIC160 for deferred stripping	Result using previous accounting policy	Result applying EIC160 for deferred stripping	Result using previous accounting policy
Operating expenses for the period	11,379	11,379	31,335	31,335
Stock movement	(2,135)	(3,717)	(4,421)	(6,003)
Deferred costs	619	2,542	1,854	3,347
Adjustments to obtain cash costs	(1,309)	(985)	(2,526)	(2,202)
Total cash costs	8,554	9,219	26,242	26,477
Production (ounces)	25,150	25,150	69,931	69,931
Cash cost (\$US per ounce)	342	367	375	378

Uruguay Mineral Exploration Inc.
Management Discussion and Analysis
February 29, 2008

(Thousands of United States Dollars, except where indicated)

Cash costs per ounce for the nine month period at \$US 375 were higher than the forecast cash cost for the year of \$US 342. The difference of \$US 30 is reconciled in the table below.

	\$US per ounce produced
Original average forecast cash costs for the year to 31 May 2008	345
Difference due to lower production for the nine month period (assuming 95,000 for the full year)	7
Change in accounting treatment for deferred stripping	(3)
Cost changes	26
Actual cash costs for the nine months ended February 2008	375

The increase in costs of \$ 26 per ounce is attributed to the following:

- Acceleration of Arenal mining using contractors at higher unit costs early in the year to allow development of the Arenal pit in one phase. This will increase productivity and flexibility in achieving production targets over the next 12 months and has now been completed.
- One off settlement for termination of mobile equipment maintenance contract. This step has been taken to contain costs and improve equipment productivity.
- Increased cost of electricity, salaries and other local costs due to a 13% appreciation of the Uruguayan peso against the \$US together with inflation in Uruguayan pesos (approximately 8% per annum).
- Increase in royalty expense as a result of higher gold prices and the requirement to pay landowner royalties on the expanded Arenal pit, instead of purchasing the land.
- Increases in \$US per litre fuel costs of 40% over the nine months with respect to the average price for the last financial year.

Amortization and depreciation expense were \$ 2,977 for the quarter and \$ 9,004 for the half compared to \$ 2,331 and \$ 6,255 in the corresponding quarter and half of the prior year. The increase in amortization and depreciation expense in the current half is due to:

- Additional mine properties depreciation related to Arenal. In May 2007, the Company transferred exploration expenditure of \$ 2,034 to mine properties. This resulted in an additional \$ 784 of depreciation in the nine month period ended February 29, 2008 in comparison to the same period in the previous year;
- Additional depreciation for the river diversion and the recognition of the contingent payment of \$1,050 relating to the acquisition of the new profit interest described at note 4(a) to the November 30 2007 Financial Statements.

Other Revenues and Expenses

Corporate expenses were \$ 1,069 for the quarter compared to \$ 1,229 for the corresponding quarter of the prior financial year. The nine month period corporate expense was \$ 3,235 compared to the prior year of \$ 3,218.

The current quarter and year to date period does not include any results for the fair value adjustment on gold financial derivatives, as all financial derivatives have been delivered into. The corresponding year to date of the prior year included a gain of \$ 2,317.

Uruguay Mineral Exploration Inc.
Management Discussion and Analysis
February 29, 2008

(Thousands of United States Dollars, except where indicated)

The stock option expense for the quarter and nine month period were \$ 264 and \$ 770 respectively against \$ 278 and \$ 758 for the corresponding periods of the prior year.

The Company issued 824,000 stock options during the nine month period at a weighted average price of \$CAD 3.28. Details of these issues are shown below.

Number	Who Issued To	Weighted average price	Vesting
520,000	Directors and executive management	3.29	Three equal annual portions after one, two and three years
304,000	Other employees	3.27	Three equal annual portions after one, two and three years

4. FINANCIAL POSITION

Cash and other liquid resources

At February 29, 2008 UME had cash and cash equivalents of \$ 14,942 compared to \$ 13,978 at 31 May, 2007. Cash flow from operations for the quarter was \$ 4,416 after \$ 4,255 was used for non-cash working capital items. This compared to \$ 4,840 after using \$ 801 from non-cash working capital items in the corresponding quarter of the prior year.

Cash generated from operations during the nine month period half was \$ 17,359, after \$ 3,904 was used for non-cash working capital items. In the corresponding period of the prior year cash flow from operations was \$ 11,737 with \$ 1,084 used in non cash working capital movements.

Cash balances did not increase significantly during the nine month period. This was due to the increase in ore stockpiles by \$ 4,200, capital expenditure of \$ 7,770, and a 7,031 investment in exploration. During this last quarter, the annual mining royalty corresponding to civil year 2007 was paid per \$ 2,300. A refund of \$ 700 relating to land owned by the company was received subsequent to the end of the period.

Stockpiles are expected to build by a further 220,000 tonnes in the last quarter to approximately 700,000 tonnes. Given the current gold price and lower capital expenditure in the final quarter, cash balances are expected to increase to approximately 4 million further by end of the financial year.

Capital Expenditure

Expenditure on property plant and equipment for the quarter was \$ 7,770 to February 2008. Payments for the nine month period included:

- \$ 2,385 for the now complete Corrales river diversion.
- \$ 1,050 for the settlement of the 2nd instalment of the net profit interest acquisition over key tenements within the Minas de Corrales project.
- \$ 700 for the purchase of two additional used Komatsu HD 465-7 off-highway trucks.
- \$ 530 for the purchase of a Pantera 1500 hydraulic drill rig.
- \$ 911 in pre-stripping of San Gregorio East pit.
- \$ 903 for the extension of the tailings dam facilities.

Exploration expenditure was \$ 2,230 for the quarter with \$ 1,697 invested in near mine and regional exploration activities within the Isla Cristalina and \$ 419 invested on other gold projects in the Florida and Don Feliciano Belts. The remaining expenditure was incurred in the Lascano project and the diamonds project.

Financing

During the quarter no employee options were converted into shares. For the nine month period 395,333 employee options were converted into shares to provide proceeds of \$ 593. The company has 2,892,000 outstanding employee options at a weighted average price of \$CDN 3.97 of which 1,149,000 have vested and only 120,000 employee options have strike prices above the stock price of \$CDN 3.50 recorded at the end of the quarter.

At February 29, 2008 UME had outstanding 250,000 options on convertible notes, exercisable up to July 30, 2008 at \$US 4.20 and 20,000 options exercisable up to 22 March 2009 at \$CDN 4.56.

On October 26, 2007 the Company paid a dividend of \$CDN 0.035 per share equivalent to \$ 1,776 and a \$CDN 0.02 per share dividend has been committed to be paid in April 2008.

The Company intends to buy back, under a normal course issuer bid and over calendar year 2008, up to an equivalent of CAD\$ 2 million of its common shares for cancellation, if shares are considered to be at a price significantly lower than the Company's fair value. To February 28, 2008, the company has invested \$ 270 in the repurchase of 80,400 common shares.

5. OUTLOOK AND STRATEGY

The Corporation is committed to increasing shareholder value through increasing resources and reserves and growing its production profile. The Company's strategy to achieve this objective is organic growth through successful exploration in Uruguay, optimization of and the development of our San Gregorio Operations and acquisition of properties throughout Latin America that are in production or can be brought into production within a three year timeframe. Our intention is to build value in our base metals and diamonds exploration portfolio before divesting it in an orderly process.

UME's objectives for the next three years are to:

- Advance exploration to build longer mine life at San Gregorio and develop new resources for a second operation in Uruguay.
- Complete evaluation of different development options for the San Gregorio Operations and optimize the 5 year mine plan.
- Commence scoping studies for new projects as resources are developed.
- Train workforce and focus on productivity improvements to reduce and contain costs.
- Advance divestment programme for non gold assets.
- Acquisition of gold development projects in South America.

The Company plans to produce 95,000 ounces of gold for the 2008 financial year. Cash cost per ounce are expected to be in the range of \$US 360 to \$US 380 for the full year.

6. 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 February 29, 2008.

7. RELATED PARTY TRANSACTIONS

The Company has no related party transactions.

8. 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	259	188	71	-		
Asset Retirement Obligations	2,121	215	243	168	869	626
Total	4,480	2,503	314	168	869	626

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 February 29, 2008, \$ 259 was drawn for vehicle leasing and \$ 1,327 was used for the issuance of guarantees for exploration permits.

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 for the mining operation, and guarantee letters of credit of \$ 2,381 have been provided by Uruguayan local insurance companies and banks to support environmental rehabilitation requirements resulting from exploration activities. An additional \$ 2,383 has been provided by Uruguayan local insurance companies and banks to support exploration tenements applied for but not granted.

The Company has obligations and commitments under farm-in and acquisition agreements, the details of which are disclosed in the Financial Statements for the February 29, 2008 quarter at Note 3.

Other than described above there were no new obligations or commitments executed during the quarter.

9. 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. 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 estimated by management based on feasibility and engineering studies on a site by site basis. The discounted value of these asset retirement obligations as at November 30 2007 was \$ 2,205 and is included in the mine closure and site restoration liability. The \$ 488 unamortized balance of asset retirement costs as at November 30, 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;

Exploration and evaluation expenditure

The recoverability of amounts shown for capitalized exploration and evaluation expenditure is dependant upon the discovery of economically recoverable reserves.

10. CHANGES IN CANADIAN ACCOUNTING RECOMMENDATIONS

Financial Instruments and Hedges.

Effective June 1, 2007, the Company has applied the CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", and 3865, "Hedges".

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 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.

The impact of applying these standards is immaterial.

Other comprehensive income

Effective June 1, 2007, the Company has applied the CICA Handbook Section 1530, "Comprehensive Income",

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.

The company has not accrued any other comprehensive income during the quarter but actually carries a historical accumulated currency translation adjustment for self-sustaining foreign operations that is reclassified to accumulated other comprehensive income upon transition to the new standard. Other than this transition adjustment, the adoption of these standards had no financial impact on the financial statements of the Company.

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.

Future accounting changes and changes in accounting policies

In July 2006, the Accounting Standards Board issued a replacement of CICA Handbook Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

In December 2006, Section 3862, Financial Instruments -Disclosures; Section 3863, Financial Instruments - Presentation; and Section 1535, Capital Disclosures were issued. All three Sections will be applicable for interim and annual financial statements relating to fiscal years beginning after June 1, 2008. Section 3862 on financial instrument disclosures places an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed and is consistent with Section 3861. The new Section removes duplicative disclosures and simplifies the disclosures relating to concentrations of risk, credit risk, liquidity risk and price risk currently found in Section 3861. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

In June 2007, a replacement section for inventories, Section 3031 "Inventories" was issued and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and eliminates the use of the "last-in, first-out" method of accounting and is effective for the fiscal years beginning on or after June 1, 2008.

The Company has not yet determined the impact of adopting the above accounting standards.

Goodwill and intangible assets

The CICA has issued CICA 3064 'Goodwill and intangible assets' which may affect the financial disclosures and results of operations of the Company. This Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and the Company will adopt the requirements commencing in the quarter ended August 31, 2009. Section 3064, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the pre-operating period. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs incurred and revenues received prior to commercial production at new mine operations. The Company is considering the impact this will have on the Company's financial statements.

11. 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 MD&A, 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 MD&A, 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 in providing 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 MD&A, 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 quarter which materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

12. 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 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 San Gregorio 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
February 29, 2008

(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 are 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 (Unaudited)

Quarterly Results (in thousands of US\$ except where otherwise noted)								
	Qtr 4 May 2006	Qtr 1 Aug 2006	Qtr 2 Nov 2006	Qtr 3 Feb 2007	Qtr 4 May 2007	Qtr 1 Aug 2007	Qtr 2 Nov 2007	Qtr 3 Feb 2008
Gold sold (ounces)	27,284	20,809	20,416	24,731	31,550	18,987	26,461	23,746
Average sales price (\$/oz)	543	568	565	638	658	661	761	888
Cash operating cost (\$/oz)	243	332	345	253	273	425	374	342
Operating revenues	15,992	12,177	12,433	16,606	21,840	13,253	21,180	22,220
Operating expenses	(5,995)	(6,749)	(7,676)	(7,374)	(9,738)	(8,323)	(10,582)	(9,863)
Contribution Margin	9,997	5,428	4,757	9,232	12,102	4,930	10,598	12,357
Administration expenses	(2,650)	(1,187)	(1,282)	(1,507)	(1,346)	(1,203)	(1,469)	(1,333)
Amortization and depletion	(2,245)	(2,015)	(1,909)	(2,331)	(2,497)	(2,412)	(3,615)	(2,977)
Interest and financing costs	(28)	(88)	(82)	(79)	(65)	79	160	125
Other	286	1,275	1,121	75	(1,998)	13	43	24
Income Tax	(1,283)	846	(854)	(1,491)	141	(183)	(1,348)	(2,254)
Net income for the period	4,077	2,567	1,751	3,899	6,337	1,224	4,369	5,942
Basic earnings per share	0.09	0.054	0.036	0.08	0.13	0.025	0.089	0.120
Cash flow from operations	7,445	3,225	3,672	4,840	13,621	4,161	8,782	4,416
Cash from (used for) financing	1,502	1,119	(1,532)	365	(837)	547	(1,825)	(316)
Cash invested	(3,606)	(4,730)	(4,883)	(3,211)	(6,602)	(7,055)	(3,847)	(3,899)
Cash on hand	8,931	8,545	5,802	7,796	13,978	11,631	14,741	14,942
Total Assets	60,008	62,651	62,725	66,177	74,941	76,869	82,418	87,164
Shareholders Equity	45,239	48,639	50,627	54,306	60,868	61,252	65,783	70,720

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 amortization of deferred stripping 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 4 May 2006	Quarter 1 Aug-06	Quarter 2 Nov-06	Quarter 3 Feb-07	Quarter 4 May-07	Quarter 1 Aug-07	Quarter 2 Nov-07	Quarter 3 Feb-08
Operating expenses (000)	5,995	6,749	7,676	7,374	9,738	8,323	10,582	9,863
Other (000)	168	(383)	(756)	(303)	(1,748)	(471)	(746)	(1,309)
Total cash costs (000)	6,163	6,366	6,920	7,071	7,990	7,852	9,836	8,554
Gold production in ounces	25,350	19,175	20,059	27,921	29,265	18,464	26,317	25,150
Total cash costs per ounce	243	332	345	253	273	425	374	342

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

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	Balance February 2008
Isla Cristalina Belt	\$ 8,492	(2,043)	-	4,732	11,181
Florida /Arroyo Grande Belts	1,541	-	-	1,043	2,584
Don Feliciano Belt	3,025	-	-	559	3,584
Lascano	2,122	-	-	275	2,397
Diamonds	1,136	-	-	298	1,434
Gold business development	-	-	-	124	124
Total	\$ 16,316	(2,043)	-	7,031	21,304

The Company spent \$ 2,230 on deferred exploration and evaluation costs during the quarter. This compares to \$ 1,959 for the corresponding quarter of 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 February 29, 2008.

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. Production from the belt is estimated to be 800,000 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.

Don Feliciano Belt

The southern end of the Don Feliciano mobile belt lies 95 kilometers east of Montevideo and trends north-northwest. The belt is exposed for over 250 kilometers along strike and. 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 kilometers northeast of Montevideo in the Laguna Marin basin. The project is defined by three large circular, 20 kilometers in diameter, geophysical anomalies. The anomalies were defined by results from an airborne geophysical survey completed by Bell Geophysical. Drilling in 2007 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. 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 kilometers 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.