

URUGUAY MINERAL EXPLORATION



Management Discussion & Analysis
for the period ended February 28, 2009

Prepared as at: April 14, 2009

Management's discussion and analysis ("MD&A") provides a discussion of the Company's financial and operating results for the quarter and the nine month period ended February 28, 2009 with comparisons to previous quarters.

This MD&A accompanies, and should be read in conjunction with, the un-audited interim financial statements and accompanying notes of Uruguay Mineral Exploration Inc ("UME" or "Company") for the three and nine month period ended February 28, 2009. 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, 2008 and 2007 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 MD&A is effective as of April 14, 2009.

1. HIGHLIGHTS

This quarter showed an improvement over the prior quarter. Financial and Operational Highlights for the period ended February 28, 2009 include:

- Production was 19,371 ounces of gold for the quarter, in line with expectation, representing a 22 percent increase over the previous quarter. The company continues to target production of between 72,000 to 75,000 ounces for fiscal 2009.
- Average cash cost for the Quarter were \$US 547 per ounce, representing a 33 percent fall when compared to the prior quarter. This result reflected an increase in head grade, the initial success of a company-wide cost reduction program implemented during the quarter and the decline in the price of oil and other consumables. Although we expect cost reduction to continue, the average cash cost estimate for the year has been increased to \$US 650 to \$US 680 per ounce compared to previous estimate of \$US 600 to \$US 630. This change is due to a refinement of the company's mine plans to accelerate waste stripping and defer mining of San Gregorio East which decreases the credit to cash costs from medium grade inventory build.
- The cash position improved to \$US 8.1 million at the end of the quarter, up from \$US 6.5 million in the previous quarter. The target for the current financial year remains a cash balance of approximately \$US 8 million to \$US 10 million."
- The results of an independent resource estimate for Arenal Deepes have been received recently, indicating a measured and indicated resource of 3.2 million tones at 2.2 g/t Au using a 1.5 g/t cut off. This is equivalent to 224,000 ounces of contained gold. The pre-feasibility study is expected to be released in June 2009 with infill and extension drilling and feasibility studies to follow.

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2. OVERVIEW OF FINANCIAL RESULTS

2.1 Operating revenues

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

Doré containing a mix of gold and silver is shipped to a refiner in Europe. While risk of loss transfers to the refiner at the mine gate, sales are recognized when precious metals are refined and sold. Refining costs are included in operating expenses.

Total sales for the quarter were \$17,125 compared to \$22,220 for the corresponding period of the prior financial year. The average gold price for the quarter was \$822 per ounce from \$888 in the third quarter of previous financial year. For the nine month period ended February 28, 2009, total sales were \$46,505 with an average gold price of \$841 compared to \$56,653 and \$777 respectively, for the corresponding period of the previous year.

The decrease in sales for both the quarter and nine months are due to lower production during the period.

Last August, the Company forward sold 45,000 ounces of gold at an average price of \$US 796.25 per ounce (with deliveries of 5,000 ounces per month from September 2008 to May 2009). Details of the forward sales contracts are provided under reference 3.5 of this MD&A.

2.2 Profit / (loss) before taxes

During the quarter the Company reported a net loss before taxes of \$1,117 compared to a \$8,196 profit for the corresponding quarter of the previous year. Contribution margin for the quarter was \$6,054 compared to a contribution margin of \$12,976 in the corresponding quarter of the prior year. For the nine month period ended February 2009, UME reported a net loss before taxes of \$11,043 and a contribution margin of \$8,280 in

Table 1 - Sales composition

Quarter 3 – 08/09	\$000's	Oz	\$ per oz
Gold	16,440	20,002	822
Silver	367	30,923	12
Export refund	318		
Total Sales	17,125		
Quarter 3 – 07/08	\$000's		
Gold	21,078	23,746	888
Silver	697	43,269	16
Export refund	445		
Total Sales	22,220		
Year to date – 08/09			
Gold	43,657	51,938	841
Silver	1,934	141,204	14
Export refund	914		
Total Sales	46,505		
Year to date – 07/08			
Gold	53,750	69,194	777
Silver	1,667	115,949	14
Export refund	1,236		
Total Sales	56,653		

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comparison to a profit before tax of \$15,320 and a contribution margin of \$29,739 respectively, for the corresponding period in the previous year.

Table 2 (Operating Results) opposite shows the composition of the profit/ (loss) before taxes.

Table 2 - Operating Results

	Quarter 3 08/09	Quarter 3 07/08	YTD 08/09	YTD 07/08
	\$000's	\$000's	\$000's	\$000's
Revenue	17,125	22,220	46,505	56,653
Operating expenses	(11,071)	(9,244)	(38,225)	(26,914)
Contribution margin	6,054	12,976	8,280	29,739
Amortization	(4,600)	(3,567)	(13,571)	(10,772)
Operating profit (loss)	1,454	9,409	(5,291)	18,967
Fair value of derivatives	(901)	0	(1,696)	0
Exploration written off	(775)	0	(775)	0
Other gains (expenses)	(895)	(1,213)	(3,281)	(3,647)
Profit /(loss) before taxes	(1,117)	8,196	(11,043)	15,320

The main reason for the difference, in profit year-on-year is lower production.

Operating costs are higher compared to last year due to higher mining costs. Cost reduction initiatives undertaken this Quarter are expected to progressively reduce costs.

Depreciation increased in the third quarter mainly due to a reduction in reserves in Arenal as a result of the shortfall in high grade ore.

Net profit before taxes was negatively affected by an unrealized loss of \$901 and \$1,696 for the quarter and nine month period respectively, derived from the fair value of the forward gold sales committed in August 2008 that will be settled within the financial year.

Exploration expenses of \$775 were written off during the quarter as no further work is planned on a number of areas. The write-off related to permits that were released as no further work is planned.

2.3 Operating costs

Operating expenses were \$11,071 for the quarter, equivalent to cash costs per ounce of \$547. This compares to an operating expense of \$9,244 for the third quarter of the prior financial year, or cash costs per ounce of \$342. For the nine month period ended February 2009, operating expenses were \$38,225, equivalent to cash cost per ounce of \$706. This compared to operating expenses of \$26,914 and a cash cost of \$375 per ounce for the corresponding period of the previous fiscal year.

The major factor influencing operating costs when comparing total cost between 2008 and 2009 has been an increase in costs due to deeper, longer haul profiles and increase in unit costs due to higher commodity prices and the stronger Uruguayan currency.

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While input costs such as fuel have fallen and the Uruguayan peso has devalued to some extent against the \$US specific additional steps were taken during the quarter to reduce costs, including a reduction in employee numbers by 20% and identification of competing supply sources. Opportunities for further cost reduction will continue

Table 3 - Reconciliation of Operating costs to cash cost per ounce

	Q3 08/09	Q3 07/08	YTD 08/09	YTD 07/08
	\$000`s	\$000`s	\$000`s	\$000`s
Operating expenses	11,071	9,244	38,225	26,914
Movement in non ore inventories	(587)	(242)	(918)	216
Deferred stripping included in depreciation	558	619	1,975	1,854
Other costs	247	74	31	157
Export refund and Silver credit.	(685)	(1,142)	(2,848)	(2,903)
Total cash costs	10,604	8,553	36,465	26,238
Gold production in ounces	19,371	25,150	51,647	69,931
Total cash costs per ounce	547	342	706	375

to be pursued as cost structures generally are falling across the mining industry.

2.4 Amortization and depletion

Amortization and depreciation expense was \$4,600 for the current quarter compared to \$3,567 in the corresponding quarter of the prior year. For the nine month period ended February 2009, depreciation expense was \$13,571 compared to \$10,772 for the corresponding period of the prior financial year.

Depreciation includes straight line depreciation of fixed assets and the unit of production depreciation of

mine properties based on contained ounces of gold in ore mined. Though production for Arenal mine was lower on a year on year basis, Arenal mine properties depreciation was increased by approximately \$1,700 more than planned as the amortization base for the remaining ounces was adjusted by the shortfall in high grade ore. Other mine properties include amortization of mine properties related to pits other than Arenal including the Polvorin vein, Santa Teresa, San Gregorio East and Zapucay deposits.

Depreciation also includes previously accumulated deferred stripping costs. The Company adopted EIC 160 under Canadian GAAP which requires that the costs associated with the removal of overburden and other mine waste materials incurred in the production phase of operations have to be charged to income in the period that

Table 4 - Depreciation composition

	Quarter 3 08/09	Quarter 3 07/08	YTD 08/09	YTD 07/08
	\$000's	\$000's	\$000's	\$000's
Fixed Assets	1,346	1,479	4,336	4,330
Arenal mine properties	1,267	1,385	4,592	4,337
Other mine properties	980	0	1,823	0
Deferred stripping	558	619	1,975	1,854
Asset retirement obligation	449	84	845	251
Total depreciation	4,600	3,567	13,571	10,772

they are incurred. The new policy was adopted effective June 1, 2007 and applied on a prospective basis. However, previously deferred waste removal costs are still being depreciated over the remaining reserves accessed by the stripping activities using the units of production method. The shortfall in high grade in Arenal increased the year to date depreciation in approximately \$470.

2.5 Other Revenues and corporate expenses

Table 5 - Other revenues and corporate expenses

Other revenues and corporate expenses for the quarter amount to an expense of \$895 compared to an expense of \$1,213 for the third quarter of previous year. For the nine month period ended February 2009, other revenues and corporate expenses were an expense of \$3,281 compared to \$3,647 for the corresponding period in previous year. A breakdown of these amounts are shown opposite in Table 5.

	Quarter 3 08/09	Quarter 3 07/08	YTD 08/09	YTD 07/08
	\$000's	\$000's	\$000's	\$000's
Corporate overheads	793	823	2,726	2,836
Capital tax	150	244	310	399
Severance provision	(33)	0	137	0
Stock based compensation	(50)	264	236	770
Foreign exchange gain	(13)	(1)	(37)	(54)
Net interest loss (gain)	74	(92)	(25)	(220)
Other expenses (income)	(26)	(25)	(66)	(84)
	895	1,213	3,281	3,647

A review of the Corporate overheads have been taking place since the end of calendar 2008 and they have been reduced in line with the overall cost reduction.

During the quarter no options were granted, or exercised and 223,500 options were forfeited due to employees leaving the Company and 10,000 options expired unexercised (February 28, 2008 no options were granted, exercised, forfeited or expired). A net gain of \$50 was recorded during the quarter with a result of \$104 compensation expense being offset by a gain of \$154 for forfeited options corresponding to unvested options of employees leaving the Company. For the corresponding quarter of previous year, a compensation expense of \$264 was recorded.

For the nine months to February 28 2009, 912,750 options were granted at an exercise price of CDN 0.60. The options vest annually in three equal instalments with the first instalment vesting on the date of grant being October 15, 2008. The value of the option calculated in accordance with the Black Scholes option pricing model was \$188. This value will be amortised in accordance with the vesting schedule. The calculation assumed an expected option life of 3.1 years, volatility of 55%, a risk free interest rate of 3.12% and no dividend. Additionally, 401,500 options were forfeited as employees left the Company before options could be exercised and 10,000 options expired, unexercised. Total expense recorded for the nine month period was \$264 comprising amortisation of vested options of \$624 net of a reversal of \$360 for forfeited options (February 2008 a net expense of \$770).

Under a cost reduction programme implemented by the Company, an amount of \$137 has been provided for severance payments for exploration and corporate employees.

Net interest was affected negatively for the quarter and nine month period with respect to previous year, as a consequence of a lower remunerated deposit in cash and commissions for cashing out tax credit certificates granted by the Uruguayan Government.

2.6 Taxes

Current income tax for the quarter was \$29 in comparison to \$3,467 for the corresponding quarter of the previous year. On a year to date basis, a gain of \$1,081 for the nine month period ended February 2009 was recorded against an expense of \$5,903 for the corresponding period of previous year.

At May 2008, the Company's did not record a tax investment benefit, for investments in Uruguay during the 2008 and 2009 fiscal years. At the time of filing the annual tax return for the prior financial year during the 2009 financial year, the Company received final authorization from the Government to use this tax benefit. As a result a \$1,100 gain was recorded as a current income tax benefit during the current year.

During the current quarter, a \$48 gain for deferred tax benefit was booked against a gain of \$1,253 for the corresponding quarter in the previous year. For the nine month period ended February 2009, a deferred tax expense of \$1,897 was recorded compared to a tax benefit of \$2,118 for the corresponding period in the previous year.

For the current financial year, deferred tax expenses relate to the devaluation of future income tax benefits nominated in Uruguayan pesos (mandatory currency to assess the income tax), as a result of the appreciation of the US dollar against the Uruguayan peso. The deferred tax expense effect of the devaluation of \$2,750 was partially offset by the recognition of the deferred tax benefit for fiscal losses of \$1,250. The recognition of such asset is supported on a future tax obligation to be settled by August 2010 related to tax profits deferrals granted by the Uruguayan government in the past and shown in the balance sheet under long tax term payable.

2.7 Production

Gold production for the third quarter of fiscal 2009 was 19,371 ounces, in line with expectations for the period and representing a 22% increase on the previous quarter. As anticipated, increased grade was encountered at the Arenal pit as mining returned to the core of the deposit. Arenal provided most of the plant feed, but considerable tonnage was sourced from the Zapucay area, 26km to the east of the process plant. Smaller amounts of high grade Veta material provided supplementary feed as encountered.

In the coming quarter, the Arenal open pit will reach its final limit and the production of bulk ore tonnage will shift to the San Gregorio East Extension pit. Significant supplemental feed sources will include Zapucay, Veta Sur 2 and Veta Sur 3.

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The Company remains on schedule to attain the previously announced production target for fiscal 2009 of 72,000 to 75,000 ounces.

Production statistics are summarized in Table 6 below.

Table 6 - Quarterly production statistics

	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	May-07	Aug-07	Nov-07	Feb-08	May-08	Aug-08	Nov-08	Feb-09
Ore processed (tons)	344,417	326,974	293,657	313,340	310,370	335,832	303,740	332,704
Head Grade (g/t Au)	2.81	1.92	3.00	2.71	2.25	1.67	1.72	1.96
Recovery	94.2%	91.5%	93.0%	92.2%	92.3%	91.4%	94.2%	92.5%
Gold produced (ounces)	29,265	18,488	26,317	25,150	20,713	16,439	15,837	19,371

3. FINANCIAL POSITION

3.1 Cash and other liquid resources

Cash increased during the quarter by \$1,612 to \$8,051 at February 28, 2009.

Cash flow from operations for the quarter was \$4,953 and \$6,766 for the nine month period ended February 2009, before investment in working capital items. This compared to \$8,671 and \$21,263 in the corresponding periods of the prior year. The decrease in cash flow from operations year on year was primarily a result of the increase in operating expenses and lower production volumes.

The Company's objective remains to end the 2009 financial year with a cash balance in a range of approximately \$US 8 to 10 million. To achieve this, the Company has implemented a cost reduction program and is reducing working capital invested in inventories and receivables. Budgeted exploration expenditure has also been reduced with priority given to near mine projects.

After paying down \$2,240 in debt during the nine month period to February 28, 2009 (including \$2,100 for the acquisition of the net profit interest over key tenements in Arenal project), short term debt has been reduced to \$71 in lease liabilities, leaving the Company almost debt free.

3.2 Working capital items

During the quarter, the Company invested \$862 in working capital items compared to a cash investment of \$4,255 in the corresponding quarter of the previous year. For the nine month period ended February 2009 an investment of \$3,477 was made in working capital compared to a cash investment of \$3,904 in the corresponding period of the prior financial year. The increase in working capital is mainly due to changes in inventory and accounts receivable.

The increase in accounts receivables is a result of an availability of higher tax credits with no associated tax obligations, as no current tax obligations exist due to fiscal losses. Tax credits are representative of VAT tax

refunds and export subsidies. During the quarter, the Company started the process of cashing out tax credits that exceed tax obligations. This provided \$468 in cash funds this Quarter. This discount program will continue next quarter and future years as far as the Company has excess of tax credits.

Regarding inventory, a spare parts and consumable optimization programme has been put into place during the current quarter to reduce stocks to reflect lower levels of production. Purchase orders have declined and inventories have also started to reduce, with further reductions planned over the coming year.

The Company has reduced its level of accounts payable since May 2008 by \$1,138. Current mining royalty obligations of \$1,300 corresponding to the royalty accrued during calendar year 2008 are due to be settled in the last quarter of the financial year. The company expects therefore an additional decrease of short term liabilities towards the end of the financial year.

3.3 Capital Expenditure

Expenditure on property, plant and equipment for the quarter was \$537 compared to \$1,669 for the corresponding quarter of the prior year, and \$4,994 for the nine month period ended February 2009 compared to \$7,770 in the corresponding period of the prior financial year

Payments for nine months ended February 28, 2009 included \$2,100 to settle debt for the acquisition of the 10% net profit interest over a key tenement within the Minas de Corrales project, including the tenement in which Arenal deposit is located. This represents the last payment for the acquisition of such interest with no debt outstanding. In addition, \$2,637 was invested in property, plant and equipment, mainly in the acquisition of an additional used PC1250 excavator and a service truck for the mining operation, and the acquisition of a hydrocone scats crusher and completion of the construction of the tailings facilities for the processing operations. Pre-stripping activities in the San Gregorio East pit per \$246 are also included. Other than pre-feasibility studies for Arenal deeps, no major capital expenditure is expected for the last quarter of the financial year.

Exploration expenditure was \$1,896 for the quarter and \$8,304 for the nine month period ended February 2009, reflecting the aggressive exploration programme performed by the Company on its main targets. This compares to \$2,230 and \$7,031 in the corresponding periods of previous years. A detail of the investment by area is provided in Table 7 below.

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Table 7 – Exploration expenditure by areas

Project Area	Balance 31 May 2008	Expenditure 2008	Indirect costs distribution	Transfer to Mine Properties	(Write off)	Balance 30 November 2008
Isla Cristalina Belt	\$ 1,968	4,838	102	(3,446)	-	3,462
South Uruguay exploration	4,019	1,880	40	-	(775)	5,164
Lascano	2,961	1,145	24	-	-	4,130
Diamonds	-	35	1	-	-	36
Others	-	234	5	-	-	239
Indirect overheads	-	172	(172)	-	-	-
Total	\$ 8,948	8,304	-	(3,446)	(775)	13,031

During the nine month period ended February 2009, \$4,838 was invested in near mine exploration activities and exploration within the Isla Cristalina Belt, \$1,880 was invested on other gold projects in the Florida, Don Feliciano Belts, Arroyo Grande Belt and Delcosur projects and \$1,145 in the Lascano drilling program. A further \$441 was invested in general exploration overheads, base metals and diamonds projects and the evaluation of possible acquisitions outside Uruguay.

During the quarter, \$775 of exploration expense was written off. This amount relates to projects where the Company released exploration permits as targets had been tested. These expenses relate to south Uruguayan Gold projects, mainly major areas of the Delcosur farm-in agreement and Cerro San Carlos project.

Each of the major project areas in the table above is described in section 12 of this document. Details of work performed during the quarter and the nine month period are included in the Company's Exploration Report for the quarter ended February 28, 2009.

3.4 Funding

During the nine month period ended February 2009 no employee options were converted into shares unlike the same period of the previous year during which 395,333 employee options were converted into shares to provide proceeds of \$593.

At February 28, 2009 the Company had 3,360,250 outstanding stock options at an average exercise price of \$CDN 3.11 out of which 2,010,083 had vested at an average price of \$CDN 3.66. The decline in the Company's stock price left all outstanding employee options "out of the money".

At February 28, 2009 UME had 20,000 non transferable warrants outstanding at an exercise price of \$CDN 4.56. The warrants expire in March 2009.

On December 11, 2007 the Company announced its intention to buy back up to \$CDN 2,000,000 of its common shares over a 12 month period. During the quarter, no shares were repurchased. During the nine month period ended February 2009, 143,800 common shares were repurchased at a weighted average price

of \$CDN 2.85 per share resulting in a cash investment of \$401. To-date, a total of 274,200 common shares were repurchased for a total of \$807. No more purchases are planned.

3.5 Financial instruments

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

In August 2008, UME committed to forward sell 45,000 ounces of gold representing approximately 70% of forecast production for the last nine months of the fiscal year. The forward price was \$US 796.25 per ounce and is deliverable on a monthly fixed amount of 5,000 ounces from September 2008 to May 2009.

At the end of February 2009, 30,571 ounces of gold were delivered into the hedge and other 14,429 ounces committed are still outstanding. Table 9 opposite shows the composition of spot and hedge sales.

Table 8 - Spot and forward sales contracts

		Quarter 3	%	YTD	%
Delivered into hedge	oz	16,817	84	21,367	41
Sold at spot	oz	3,185	16	30,571	59
Total sold	oz	20,002	100	51,938	100
Value at spot	\$	17,602	100	44,758	100
Total sales	\$	16,440	93	43,657	98
Realized (loss) gain	\$	(1,162)	7	(1,101)	2

Year to date 41% of the sales were delivered into the hedge with an associated loss of \$1,101 representing a 2% discount on the sales spot value from selling gold into forward contracts rather than selling at spot price. The corresponding amounts for the current quarter are 84% of sales, a loss of \$1,162 and 7% discount on the sales spot value respectively. The forward sales contracts are expected to be settled within the financial year.

UME does not apply hedge accounting which would allow the deferral of gains and losses on the forward sales derivatives to the same period or periods in which the underlying exposure being hedged is brought to account. The fair value of the outstanding hedge is therefore recognized in the measurement of the Company's net income in the period in which the hedge was committed. The outstanding contracts are recorded at their fair value calculated using the spot price at period end based on the London Bullion Market Association (LBME) P.M. fix price (\$952 per ounce) and expected future prices and liabilities. As a result, a loss of \$1,696 and \$901 is shown in the nine and three month period respectively to reflect the fair value of the forward sales commitment for the current financial year.

3.6 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	More than 4 Years
Finance Lease	71	71	-	-	-	-
Asset Retirement Obligations	2,975	0	624	2,199	108	44
Total	3,046	71	624	2,199	108	44

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.

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 November 30 2008, \$71 was drawn for vehicle leasing, \$1,000 was used for the issuance of guarantees for exploration permits and nil was used for letter of credit facilities.

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 HSBC.

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 no new obligations or commitments executed during the quarter.

4. OUTLOOK

Production for the 2009 financial year is forecast to be between 72,000 to 75,000 ounces of gold.

Due to the acceleration of waste stripping and deferral of mining medium grade material from the San Gregorio East pit into 2010, (which affects inventory credits and therefore Cash costs), the average cash cost estimate for the year has been increased to \$US 650 to \$US 680 per ounce compared to previous estimate of \$US 600 to \$US 630.

Expenditure on exploration for the year remains as expected at \$US 10.3 million, having been reduced in the second half of 2009 with priority given to near mine exploration.

UME's cash balance is projected to finish the 2008/09 financial year with a cash balance of approximately \$US 8-10 million.

5. RELATED PARTY TRANSACTIONS

The Company has no related party transactions.

6. 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. Medium and high grade ore and production inventories are subject to a net realized value test assuming a gold price in the medium term of USD 700 per ounce. Low grade ore stocks are assigned no value.

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 February 28, 2008 was \$2,975 and is included in the mine closure and site restoration liability. The \$164 unamortized balance of asset retirement costs as at February 28, 2009 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.

7. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

7.1 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 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 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.

7.2 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 31, 2008 which materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

8. 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.

8.1 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, Uruguayan pesos and Canadian dollars. UME has financial exposure to foreign exchange fluctuations in the Uruguayan peso and the Canadian dollar relative to the US dollar.

UME uses diesel to operate its mobile equipment fleet. While there is some historical correlation between the fuel price and gold price UME's operating costs and cash flows are materially affected by changes in the oil price.

8.2 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.

8.3 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 has been 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.

8.4 Title Risks

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

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

8.5 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. The relationship with the Trade Unions and the Ministry of Labor has been correct. However, especially in circumstances of staff reorganization, labor conflicts may occur that might affect the operation of the Company.

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9. QUARTERLY RESULTS

	Qtr 4 May 2007	Qtr 1 Aug 2007	Qtr 2 Nov 2007	Qtr 3 Feb 2008	Qtr 4 May 2008	Qtr 1 Aug 2008	Qtr 2 Nov 2008	Qtr 3 Feb 2009
Gold sold (ounces)	31,550	18,987	26,461	23,746	22,911	18,182	13,754	20,002
Average sales price (\$/oz)	658	661	761	888	926	895	796	822
Cash operating cost (\$/oz)	273	425	374	342	540	792	811	547
Operating revenues	21,840	13,253	21,180	22,220	22,408	17,721	11,659	17,125
Operating expenses	(8,775)	(7,870)	(9,800)	(9,244)	(12,033)	(14,803)	(12,351)	(11,071)
Contribution Margin	13,065	5,383	11,380	12,976	10,375	2,918	(692)	6,054
Administration expenses	(1,346)	(1,203)	(1,469)	(1,333)	(1,392)	(1,234)	(1,315)	(860)
Amortization and depletion	(3,460)	(2,865)	(4,397)	(3,596)	(4,866)	(3,000)	(5,971)	(4,600)
Fair value of derivatives	0	0	0	0	0	(1,528)	733	(901)
Exploration write off	(2,129)	0	0	0	(11,103)	0	0	(775)
Interest expense and debt accretion	(64)	(62)	(135)	(124)	(50)	(75)	(63)	(80)
Foreign exchange difference	(23)	(42)	92	4	184	(152)	176	13
Other income (expenses)	153	196	246	269	212	192	85	32
Income Tax	141	(183)	(1,348)	(2,254)	2,903	25	(860)	19
Net income for the period	6,337	1,224	4,369	5,942	(3,737)	(2,854)	(7,907)	(1,098)
Basic earnings per share	0.13	0.03	0.09	0.12	(0.08)	(0.06)	(0.16)	(0.02)
Cash flow from (used in) operations	13,621	4,161	8,782	4,416	9,129	1,152	(1,954)	4,091
Cash from (used for) financing	(837)	547	(1,825)	(316)	(1,152)	(448)	(47)	(46)
Cash invested	(6,602)	(7,055)	(3,847)	(3,899)	(4,318)	(6,954)	(3,911)	(2,433)
Cash on hand	13,978	11,631	14,741	14,942	18,601	12,351	6,439	8,051
Total Assets	74,941	76,869	82,418	87,164	83,359	79,155	71,655	70,742
Shareholders Equity	60,868	61,252	65,783	70,720	66,960	63,742	56,084	54,936

10. 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.

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

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not included. Cash costs are total cash costs divided by gold ounces produced. This calculation is detailed below.

	Quarter 4 May 2007	Quarter 1 Aug-07	Quarter 2 Nov-07	Quarter 3 Feb-08	Quarter 4 May-08	Quarter 1 Aug-08	Quarter 2 Nov- 08	Quarter 3 Feb- 09
Operating expenses (000)	9,738	7,870	9,800	9,244	12,033	14,803	12,351	11,071
Other (000)	(1,748)	18	36	(690)	(830)	(1,786)	492	(467)
Total cash costs (000)	7,990	7,852	9,836	8,554	11,203	13,017	12,843	10,604
Gold production in ounces	29,265	18,488	26,317	25,150	20,737	16,439	15,837	19,371
Total cash costs per ounce	273	425	374	342	540	792	811	547

11. 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.

12. EXPLORATION PROJECTS DESCRIPTION

12.1 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. Exploration activities are focused around the San Gregorio mine, in the Zapucay district and regional exploration in the eastern and western ends of the belt.

12.2 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 southwestern 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 several gold exploration projects in the Piedra Alta Terrain including Casupa/Crucera, and Paso de Lugo. Projects are hosted in granitic rocks as well as green stone terrains.

12.3 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 is 40-50 kilometers 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 and Texas.

12.4 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. Surface out crop is limited over the anomalies. The anomalies were defined by results from an airborne geophysical survey completed by Bell Geophysical. Drilling over the last two years 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.

12.5 Diamond

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 exploration programme, which commenced at the beginning of 2006, 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.