



**uruguay mineral exploration inc.**

**Management Discussion & Analysis  
for the period ended November 30, 2005**

**Effective Date: January 12, 2006**

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**Uruguay Mineral Exploration Inc.**  
**Management Discussion and Analysis**  
**November 30, 2005**

(Thousands of United States Dollars, except where indicated)

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Management's discussion and analysis ("MD&A") provides a discussion of the Company's financial and operating results for the quarter ended November 30, 2005, with comparisons to previous quarters.

This MD&A accompanies, and should be read in conjunction with, the unaudited interim financial statements of Uruguay Minerals Exploration Inc ("UME" or "Company") for the three month period ended November 30, 2005. All amounts are expressed in thousands of US\$, unless otherwise indicated. The reader should also refer to the audited financial statements for the two years ended May 31 2005 and 2004.

## **HIGHLIGHTS**

Highlights for the three months ended November 30, 2005 include.

- Gold production of 25,323 ounces at an average cash cost of \$US 182 per ounce.
- Net profit after tax of \$ 1.944 M or \$ 0.042 per share after booking a fair value adjustment of \$ 1.215 M on gold derivatives.
- Cash flow from operations of \$ 5.121 M before non-cash working capital movements.
- Sales were \$ 11.326 M and the average price of gold sold was \$ 456 per ounce.
- Contract for an airborne geophysical survey of the Lascano area was completed during the quarter with data collection commencing in December 2005.
- Acquisition of the final 10% net profit interest in key tenements covered by the Minas de Corrales Project completes 100% ownership of project profits and potential resource expansions.

Highlights for the six months ended November 30, 2005 include.

- Gold production of 50,486 ounces at an average cash cost of \$US 197 per ounce.
- Net profit after tax of \$ 4.184 M or \$ 0.091 per share.
- Cash flow from operations of \$ 9.310 M before non-cash working capital movements.
- Sales were \$ 23.047 M and the average price of gold sold was \$ 443 per ounce.

## **FINANCIAL PERFORMANCE**

### **Sales**

Sales for the quarter was \$ 11,326 resulting from the sale of 23,832 ounces of gold at an average price of \$US 456 per ounce. This compares to \$ 6,328 in the corresponding quarter of 2005, which resulted from the sale of 14,397 ounces of gold at an average price of \$ 422 per ounce. During the quarter 6,554 ounces were delivered into gold derivatives contracts and 17,278 ounces were sold at spot prices.

Sales for the half year was \$ 23,047 resulting from the sale of 49,881 ounces of gold at an average price of \$US 443 per ounce. This compares to \$ 12,405 in the corresponding period of the prior year, which resulted from the sale of 29,179 ounces of gold at an average price of \$ 408 per ounce.

During the quarter the third party net profit interest ("NPI") attributable to earnings from Arenal was \$ 329 with an expense of \$ 635 for the half acquired. On November 30 the Company acquired the NPI. As a result of the acquisition the previously accrued provision and expense for the net profit interest was reversed. The expense reversal during the quarter was \$ 888. No NPI will be paid in the future.

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**Operating Earnings**

Net profit after tax for the quarter was \$ 1,944 or basic earnings per share of 0.042, compared to a loss of \$ 2,435 or basic loss per share of .056 for the second quarter of 2005. Contribution margin for the quarter was \$ 6,077 compared to \$ 860 in the corresponding quarter of the prior year.

For the six months to November 30, 2005 net profit after tax was \$ 4,184 or basic earnings per share of 0.091, compared to a loss of \$ 2,243 or basic loss per share of .058 for the second quarter of 2005. Contribution margin for the half was \$ 11,682 compared to \$ 2,402 in the corresponding period of the prior year.

The improved financial performance during the current year compared to the prior year has resulted from the increase in gold production and improved gold prices. Current quarter profit was lower than the previous quarter, despite higher average gold prices, as 2,217 less ounces were sold in the current quarter and a fair value adjustment on gold derivatives of \$1,215 was booked for the quarter. Tax expense for the quarter was lower than the previous quarter as additional tax benefits from investment incentives were booked and a positive reconciliation from the prior year occurred.

**Metal Production**

During the quarter 312,881 tonnes of ore at an average grade of 2.71 g/t were processed at San Gregorio to produce 25,323 ounces of gold. Gold production for the half year was 50,486 ounces. Gold produced in the corresponding quarter and half of the prior year was 15,934 and 31,286 ounces respectively. The increase in production relates to the higher grade ore from Arenal.

Recovery was marginally lower during the current quarter due to the fact that the plant was operated at a level approximately 20% above design, and occasional metallurgical instabilities ensued, as the operators became accustomed to pushing the plant.

245,000 tonnes of ore and 1,404,000 tonnes of waste were mined during the quarter from the Arenal deposit, bringing the total production for the six months to November 30, 2005 to 501,000 tonnes of ore and 3,218,000 tonnes of waste. A further 1,813,000 tonnes were removed from the San Gregorio East and Santa Teresa pits to provide material for the next tailings dam expansion. This development will allow full access to re-assess the re-development and expansion of the old workings that have historically been modeled using a gold price of \$ 300 per ounce.

Production statistics summarized below.

Quarterly production statistics						
	Quarter 2 Nov 2004	Quarter 3 Feb 2005	Quarter 4 May 2005	Year 2005	Quarter 1 Aug 2005	Quarter 2 Nov 2005
Ore processed (tonnes)	307,993	275,849	306,238	1,194,631	312,016	312,881
Grade processed (g/t Au)	1.70	2.24	2.67	2.06	2.63	2.71
Recovery	94.5%	95.2%	95.2%	95.0%	95.3%	93.2%
Gold produced (ounces)	15,934	18,896	24,844	75,026	25,163	25,323

**Expenses**

Operating expenses were \$ 4,970 in the November 2005 quarter after deferring \$ 646 in deferred stripping costs. Cash cost per ounce was \$ 182 as higher grade ore from Arenal was blended with low grade inventories at nil cost. In the first quarter of the prior year operating expenses were \$ 5,468 with a cash cost per ounce of \$ 363.

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For the half year operating expenses were \$ 10,730 after deferring \$ 1,441 in deferred stripping costs. Cash cost per ounce for the half were \$ 197 meeting the group's target of \$ 200 per ounce. In the first half of the prior year operating expenses were \$ 10,003 with a cash cost per ounce of \$ 329.

Lower unit costs in the current financial year have been achieved through higher gold production resulting from higher head grades. Cost benefits from improved productivity from the new mining fleet and lower maintenance costs have, unfortunately, been largely offset by higher energy costs. During the quarter the Company also received permission to build a river crossing that will allow ore delivery to the mill by large haul trucks, rather than the less efficient small contractor trucks which have been used to date. This crossing was completed during December 2005 and will result in reduced costs from January 2006 onwards.

Amortization and depreciation expense increased from \$ 694 in the first quarter of the prior year to \$ 2,567 in the current quarter as historical exploration expenses relating to Arenal and the new mining fleet are amortized. Additional amortization of \$ 810 was booked during the current quarter (included in \$ 2,567 expense) to recognize the accumulated amortization of the capital purchase price of the NPI acquired during the quarter.

### **Other Revenues and Expenses**

The current quarter's earnings include an expense of \$1,215 for the fair valuation of gold financial derivatives. The prior quarter included an expense of \$197 and the corresponding quarter of the prior year an expense of \$1,440. The fair value was calculated using the period end spot rate of \$496 per ounce while quarterly revenues were achieved at a lower average metal price of \$ 456 (including derivative ounces delivered at \$ 436) per ounce.

The Company issued 763,000 employee stock options during the quarter at a price of \$CAD 4.50. The stock options vest in three equal annual tranches after one, two and three years. The stock option expense for the quarter was \$ 158.

During the quarter the Company finalized the disposal of its old mining fleet to a Uruguayan contractor and net sales proceeds of \$ 650 were received. A net loss of \$ 114 was recorded on the sale.

## **FINANCIAL POSITION**

### **Cash and other liquid resources**

At November 30, 2005, UME had cash resources of \$ 6,287 compared to \$ 5,501 at 31 May 2005. Cash flow from operations for the quarter was \$ 2,794 after using \$ 2,327 for non-cash working capital items. Operating cash flows included \$ 530 in income tax payments during the quarter. Accounts payable reduced as the previously recognized accrual for net profit interest was reversed during the quarter. Cashflow from operations for the half was \$ 7,314 compared to \$ 266 in the corresponding half of the prior year.

### **Capital Expenditure**

Expenditure on property plant and equipment for the quarter was \$ 5,625 including \$ 3,500 relating to the 10% net profits interest acquired. Net payments of \$ 1,460 for deferred equipment acquisition were also made during the quarter.

Exploration expenditure was \$ 1,445 for the quarter including \$ 746 of the capital purchase price of the net profits interest being allocated to deferred exploration expenditure. Exploration expenditure related mainly to gold exploration regionally from the San Gregorio operation and the Lascano airborne geophysical survey.

## **Financing**

During the quarter the Company accepted an offer from Macquarie Bank Limited to extend its working capital facility of \$2,000 until September 30, 2006.

On November 30, 2005 a subsidiary of the Company acquired the 10% net profits interest over key tenements within the Minas de Corrales Project including the tenements on which the Arenal deposit is located. The total cost of the acquisition was \$ 4,246 with \$ 3,500 allocated to mineral properties and \$US 746 allocated to deferred exploration and development costs. The consideration for the acquisition was 290,000 fully paid ordinary shares and \$ 3,150 payable in 3 equal annual installments of \$ 1,050 (convertible into stock). The three convertible notes are payable on or before 30 July 2006, 30 July 2007 and 30 July 2008 respectively. Each convertible note can be converted into 250,000 ordinary shares during a 30 day period prior to the final payment date for each installment. No interest accrues on the notes. An additional \$ 1,050 is payable to the vendor if the average daily gold price for the 36 months to 30 June 2008 exceeds \$400 per ounce.

During the quarter 190,000 employee options were converted into shares to provide proceeds of \$ 204. At November 30, 2005 UME had 250,000 warrants, 750,000 options on convertible notes and 3,326,000 stock options and 46,297,413 common shares outstanding. At January 12, 2006 UME had 46,587,413 common shares on issue and 3,394,000 stock options issued.

## **EXPLORATION AND DEVELOPMENT**

### **General**

The main focus of exploration activity for the quarter was infill and depth extension drilling at Arenal. Mapping, soil geochemistry and ground geophysical surveys were also undertaken on the Arenal east extension structural trend.

At Zapucay, definition drilling was commenced on blocks 1 to 4 at Argentinita, and mapping and soil geochemistry outlined new targets (Lavadero, Tito Lopez, Lilo).

Mapping, soil and rock chip sampling programs, and geophysical surveys continued on the Carpinteria nickel project during the quarter. A first pass diamond drill program commenced on targets defined by these studies.

On the Dom Feliciano Belt, mapping, geophysical surveys and scout drilling continued on the Yatay Sur, El Bragado, Cerro Mendez, and Volcadero projects.

Preparations were completed for the Lascano airborne gravity/magnetics survey, which commenced in December. This survey is expected to take 2-3 months to complete.

A bulk sample of river gravels was taken from the Corrales River, and is being screened and sized prior to dispatch to the Diotech diamond laboratory in Australia.

### **Minas de Corrales Gold Project**

#### **Resource Development - Arenal and Rieles.**

RC and DDH drilling has continued on these two projects and extensions. to the east and west. During the quarter, 20 RC holes for 4696 meters and 4 diamond drill holes for 693.45 meters were drilled on the Arenal and Rieles orebodies. Most of this drilling was infill and check drilling, with the remainder being step out drilling along strike and down dip of the mineralized sequence.

This work has confirmed that the Arenal deposit plunges to the south-east, although the average grade appears to diminish with depth. Work is ongoing.

At Rieles (which sits between the main San Gregorio and the East pits), drilling has confirmed the presence of low to moderate grade mineralization, and studies will be undertaken to assess the economic sustainability of linking the San Gregorio and East pits, both of which have high grade ore remaining in the floor and were last modeled at a gold price of \$ 300 per ounce.

#### **Gold Exploration - Arenal East**

During the quarter much of the near-mine exploration emphasis was placed of tracing the eastward extension of the Arenal structure. This work included mapping, soil sampling, air photo interpretation, geophysical surveys and stratigraphic drilling. This work has defined the main structural corridor, but so far, only background gold values have been recorded.

#### **Gold Exploration - Santa Ernestina**

Two diamond drill holes were completed beneath the old workings of the Santa Ernestina mine (the second largest producer in the district), and the results from these confirmed previous, disappointing RC drill results from this project.

#### **Gold Exploration - Zapucay Shear Zone**

An exploration program continued along the Zapucay shear zone, seeking repetitions and structural analogies of the mineralization previously mined at Zapucay.

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

#### **Gold Exploration - Areicua**

Another area investigated during the quarter was Areicua, which lies approximately 10 kilometres north from Arenal. Elevated gold-in-soil geochemistry has been encountered, but the area is structurally very complex, and further work is required.

#### **Nickel Exploration - Carpinteria**

Mapping, soil sampling and geophysical surveys continued on this early stage nickel project, which is situated approximately 40 kilometres east of Minas de Corrales.

Disseminated sulphide is present variably in a number of the rock units identified, pentlandite in exsolution with pyrrhotite has been identified petrographically in some of the samples. The best result to date is 3.05 meters of 0.47% nickel from CAPDDH3.

Work is continuing with mapping and Max/Min surveys to identify possible sulphide accumulation targets.

#### **Dom Feliciano Mobile Belt (base metals; gold)**

The drill survey program at Yatay Sur was completed during the quarter. It tested a number of geophysical anomalies associated with contacts within an ultramafic rock sequence. Pyrrhotite and pyrite had been observed in outcrops together with gossanous horizons close to a contact with a sheared tremolite-bearing mafic rock unit. Only background nickel values for ultramafic rocks have so far been encountered. The best

intersection was 2m @ 0.35% Ni in YT8R. Petrographic work is being undertaken on rock chip samples with results pending.

### **Lascano Geophysical Anomaly**

An airborne gravity/magnetics survey comprising 9,017 line kilometers using Bell Geoscience' FTG technology was finalized during the quarter. The survey commenced in December 2005. The survey is expected to take two to three months to complete as the equipment can only be used during still conditions.

### **Cinco Rios Diamonds**

An external review of UME's existing data was commissioned from an international diamond consultant during the quarter. He has concluded that a number of additional programs are warranted to follow-up highly encouraging G9 garnet, and DSF spinel recoveries. Earlier Airborne magnetics data covering the Cinco Rios area has also now been acquired, and is being processed. The consultant, Mr Martin Jackson has agreed to join the company, and will head up the diamond project.

The bulk sample previously obtained from the Corrales River is also in the process of being screened and sized. Samples of recommended size fractions will be sent to Diotech Diamond Laboratories in Australia for evaluation.

### **OUTLOOK**

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

### **FINANCIAL INSTRUMENTS**

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

The Company has entered into put option contracts on 17,500 ounces at a forward price of \$US 400 per ounce and 10,000 ounces at a forward price of \$US 430 per ounce. To cover the cost of the put option contracts the company has sold 17,500 call options at a forward price of \$US 436 per ounce and 10,000 ounces at a forward price of \$US 486.5 per ounce. The put and call options are matched in timing and will be delivered into on a monthly basis at a rate of 2,500 ounces per month.

The Company has established a policy that permits a maximum of 25% of planned monthly production to be hedged for a period of 18 months. Given current production levels this equates to 37,500 ounces over an 18 month period.

### **RELATED PARTY TRANSACTIONS**

The Company has no related party transactions.

### **CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

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

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

### **CRITICAL ACCOUNTING ESTIMATES**

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

#### **Economic lives of mining assets and recoverable value**

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

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

#### **Share based Compensation**

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

#### **Mine closure and site restoration**

UME has estimated the ultimate asset retirement obligation costs for its operations at their expected respective closure and site restoration dates. The discounted value of these asset retirement obligations as at December 31, 2004 was \$1,602 K and is included in the mine closure and site restoration liability. The unamortized balance of asset retirement costs as at November 30, 2005 is included in property, plant and equipment. While care was taken to estimate the asset retirement obligations, these amounts are estimates of expenditures that are not due until future years. In addition, UME's asset retirement obligations are reviewed and assessed periodically on an asset by asset basis. Should there be a change in the estimate, the discounted amount of that change would be included in property, plant and equipment as an asset retirement cost with an offsetting amount accrued as an asset retirement obligation. The asset retirement cost would be amortized on a units-of-production basis over the estimated life of the mine while the asset retirement obligation would be accreted through earnings to its ultimate undiscounted amount.

#### **Forward Looking Statements**

This document may contain certain forward-looking statements within the meaning of Section 21E of the United States Securities Exchange Act 1934, as amended. Although Uruguay Mineral Exploration Inc. has taken all care in preparing the attached documents, all statements included herein, other than statements of historical fact, including without limitation exploration results, reserve and resource estimates, projected programs and statements of objectives involve certain risks and uncertainties. Important factors that could cause actual results to differ materially from those in the forward looking statements contained herein, include among others, gold price, weather, access to property, drill availability, assay laboratory performance and availability of technical personnel.

## **RISKS FACTORS**

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.

### **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 industrial accidents, technical failures, labor disputes and environmental hazards are also beyond the Group's control.

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

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

### **Title Risks**

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

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

**Political and Economic Risks**

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

**QUARTERLY RESULTS**

Quarterly Results (in thousands of US\$ except where otherwise noted)								
	Qtr 2 November 2005	Qtr 1 August 2005	Qtr 4 May 2005	Qtr 3 February 2005	Qtr 2 November 2004	Qtr 1 August 2004	Qtr 4 May 2004	Qtr 3 February 2004
Gold sold (ounces)	23,832	26,049	22,904	17,591	14,397	14,782	6,541	14,683
Average sales price (\$/oz)	456	432	422	428	422	396	360	407
Cash operating cost (\$/oz)	182	212	229	245	363	295	297	348
Operating revenues	11,326	11,721	10,284	7,874	6,328	6,077	2,512	6,105
Net profit interest	(329)	(306)	(253)	-	-	-	-	-
Operating expenses	(4,970)	(5,760)	(5,818)	(4,767)	(5,468)	(4,535)	(1,784)	(4,510)
Contribution Margin	6,027	5,655	4,213	3,107	860	1,542	728	1,595
Administration	(655)	(592)	(1,015)	(1,348)	(701)	(341)	(366)	(302)
Depreciation and amortization	(2,567)	(1,749)	(1,785)	(1,293)	(694)	(243)	(183)	(238)
Interest and financing costs	(81)	(93)	(189)	(99)	(71)	(196)	(15)	(28)
Stock-based compensation	(158)	-	-	-	(348)	(408)	-	0
Fair value adjustment	(1,215)	(197)	639	831	(1,440)	(210)		
Other	730	14	71	11	(41)	48	39	(9)
Income Tax	(137)	(798)	610	-	-	-		
Net income (loss) for the period	1,944	2,240	2,544	1,209	(2,435)	192	203	1,018
Basic earnings (loss) per share	0.042	0.048	0.056	0.028	(0.056)	0.004	.005	.024
Cash flow from (used in) operations	2,794	4,848	2,173	(316)	(121)	388	(238)	(449)
Cash from financing	36	168	2,221	2,719	2,258	1,049	5,363	2,575
Cash invested	(3,925)	(2,835)	(1,791)	(2,490)	(3,354)	(2,206)	(2,630)	(291)
Cash on hand	6,287	7,382	5,501	2,898	2,985	4,202	3,581	5,416
Total Assets	51,918	46,635	42,651	37,782	34,648	28,648	21,327	24,805
Shareholders Equity	36,236	33,728	31,321	22,513	19,315	21,198	15,067	18,755

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**NON GAAP MEASURES**

Cash flow from operations, contribution margin and cash cost per ounce are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non GAAP measures. Therefore these measures may not be comparable to similar measures presented by other issuers. These measures have been presented in this MD&A as additional information regarding the company's financial performance and financial position.

Cash flow from operations is calculated by adding back non-cash items to earnings. Contribution margin has been calculated by deducting operating expenses from sales. Operating expenses include movements in inventories but exclude operating depreciation and amortization.

Cash cost per ounce are determined according to the Gold Institute Standard and consist of site costs for all mining, processing, administration, royalties, refining charges, silver credits and inventory adjustments relating to metal production. Capital expenditure, depreciation and amortisation and financing costs are not included. Cash costs are total cash costs divided by gold ounces produced. This calculation is detailed below.

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

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

(Thousands of United States Dollars, except where indicated)

	May 31, 05	Expenditures	Abandonments/ Transfers	November 30, 05
Minas de Corrales Gold Project (1)				
Acquisition	\$ 125	746	-	\$ 871
Exploration	252	255	-	507
Deferred administration	34	20	-	54
	<u>411</u>	<u>1,021</u>	<u>-</u>	<u>1,432</u>
Base Metals Projects (2)				
Acquisition	105	-	-	105
Exploration	1,806	721	-	2,527
Deferred administration	923	59	-	982
	<u>2,834</u>	<u>780</u>	<u>-</u>	<u>3,614</u>
Other Gold Projects (3)				
Acquisition	480	-	-	480
Exploration	531	2	-	533
Deferred administration	356	-	-	356
	<u>1,367</u>	<u>2</u>	<u>-</u>	<u>1,369</u>
Diamonds Projects (4)				
Acquisition	65	-	-	65
Exploration	96	77	-	173
Deferred administration	28	5	-	33
	<u>189</u>	<u>82</u>	<u>-</u>	<u>271</u>
Regional Exploration (5)				
Acquisition	-	-	-	-
Exploration and overhead	287	-	-	287
	<u>287</u>	<u>-</u>	<u>-</u>	<u>287</u>
	<u>\$ 5,088</u>	<u>\$ 1,885</u>	<u>-</u>	<u>\$ 6,973</u>

No amounts directly related to these projects were expensed.

- (1) **Minas de Corrales Gold Project (MCGP):** The MCGP is situated approximately 450 kilometers north of Montevideo and features Uruguay's only operating gold mine. The Corporation controls 100% of this historic gold field, which is characterized by widespread gold mineralization. The two largest deposits discovered to-date are the San Gregorio deposit, which has produced over 500,000 ounces since it was discovered in the mid 1880's, and the Arenal deposit, which was discovered in 2004. Arenal, which is now in production, contains an inferred resource of over 750,000 ounces, and is still open in all directions. Other known, unmined deposits in the area include Sobre Saliente and Castrillón, where indicated resources of approximately 200,000 and 20,000 ounces of gold respectively have been delineated. The company has an aggressive exploration effort underway in the area targeting further "Arenal-style" deposits within a 50 km radius of the MCGP.
- (2) **Base Metals Projects:** These include the *Isla Patrulla/Texas* copper/gold project where a substantial zone of copper and gold anomalism has been identified approximately 300 km north-east of Montevideo. A number of targets have been identified using a combination of stream geochemistry and airborne geophysics, and these targets are being progressively tested. Previous drilling at the Texas prospect intersected high-grade, but narrow width copper/gold/lead/silver mineralization, and the object of the current search is for locations where this mineralization will have accumulated in greater thicknesses. At *Mal Abrigo*, located approximately 140 km WNW of Montevideo, a large, layered mafic/ultramafic complex is the subject of study for nickel/copper/platinoids. Disseminated copper and nickel sulphides are visible at the surface in a number of places and work is underway to identify zones where massive sulphides may have accumulated. At *Lascano*, located approximately 250 kilometers north-east of Montevideo, a very strong gravity high approximately 70 kilometers long by up to 40 kilometers wide is considered to be a capable of hosting Norilsk-style nickel mineralisation. A detailed airborne airmag/gravity survey is scheduled for September/October 2005, with the expectation of generating drill targets for 2006. At *Carpinteria*, which is situated approximately 500 km north of Montevideo, an extensive sequence of komatiitic basalts and ultramafic flows with strong nickel anomalism is currently being evaluated.
- (3) **Other Gold Projects.** These include *Presidente Terra*, which is located approximately 240 kilometers north east of Montevideo, where work conducted during 2000 and 2001 identified high-grade mineralized float over a 12 km strike length of a large gold-mineralized shear system. This project has been on hold due to competing priorities. *Mirta*, which is located near Colonia in the south-west of Uruguay, is a complex, shear-hosted gold deposit and the company has been assessing the mineralisation controls in order to define further drill targets. The deposit is characterized (so far) by a series of short, plunging, high-grade ore zones contained within a broader, low-grade mineralisation envelope. At *Chamizo*, which is located approximately 120 km ENE of Montevideo, a gold-bearing metamorphosed acid tuff is being investigated.
- (4) **Diamonds including Cinco Rios Project.** This project is located in the North of Uruguay and includes the Minas de Corrales area as well as the properties obtained with the acquisitions of Cinco Rios SA. Systematic drainage sampling has identified an area where positive kimberlite indicator minerals are clustered, and a close-space airborne gravity survey is scheduled for October 2005. The company has previously recovered several macro- and micro-diamonds, together with G9 and G10 garnets from this area.
- (5) **Regional Exploration.** The company has an ongoing program of identifying and field-checking geochemical anomalies obtained from reviewing data held within the company's proprietary data-base. Where appropriate successful prospects are designated and allocated to the major project groupings shown above.