



**Management Discussion & Analysis  
for the period ended February 28, 2007**

**Prepared as at:      April 11, 2007**

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**Uruguay Mineral Exploration Inc.**  
**Management Discussion and Analysis**  
**February 28, 2007**

(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 February 28, 2007 with comparisons to previous quarters.

This MD&A accompanies, and should be read in conjunction with, the un-audited interim financial statements of Uruguay Minerals Exploration Inc ("UME" or "Company") for the three and nine month periods ended February 28, 2007. All amounts are expressed in thousands of US\$, unless otherwise indicated. The reader should also refer to the audited financial statements for the two years ended May 31 2006 and the related Management's Discussion and Analysis ("MD&A") both of which are available on the Company's website at [www.uruguayminerals.com](http://www.uruguayminerals.com) and on SEDAR at [www.sedar.com](http://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 April 11, 2007.

### **SUMMARY OF RESULTS AND SIGNIFICANT EVENTS**

Financial highlights for the three months ended February 28, 2007 include:

- Gold production of 27,921 ounces at an average cash cost of \$US 253 per ounce compared to 25,451 ounces at an average cash cost of \$US 203 per ounce in the prior financial year.
- Net profit after tax of \$ 3,899 or \$ .08 basic earnings per share compared to \$ 2,322 or \$ .05 basic earnings per share in the corresponding period of the prior financial year.
- Cash flow from operations was \$ 5,641 before non-cash working capital movements. This compares to \$ 4,495 in the same period last year.
- Sales were \$ 16,606 with an average price of gold sold was \$US 638 per ounce compared to \$ 12,167 at an average price of \$US 510 in the corresponding period of the prior financial year.

Financial highlights for the nine months ended February 28, 2007 include:

- Gold production of 67,155 ounces at an average cash cost of \$US 303 per ounce compared to 75,937 ounces at an average cash cost of \$US 199 per ounce in the prior financial year.
- Net profit after tax of \$ 8,217 or \$ 0.17 basic earnings per share compared to \$ 6,506 or \$ 0.14 basic earnings per share in the corresponding period of the prior financial year.
- Cash flow from operations was \$ 12,821 before non-cash working capital movements. This compares to \$ 13,702 in the same period last year.
- Sales were \$ 41,216 and the average price of gold sold was \$US 593 per ounce compared to \$ 35,214 at an average price of \$US 465 in the corresponding period of the prior financial year.

Significant events for the three months ended February 28, 2007

- The Company has been granted the environmental and regulatory approvals necessary to divert the Arroyo Corrales. Construction work began in March and is expected to take four months to complete. Where possible the Company will use its own equipment fleet to assist in construction to provide greater certainty on timing. The level of rain during construction and water flow in the Arroyo may affect the ultimate completion date and contingencies are being developed for such delays.
- The appointment of Devin Den Boer as the Exploration Manager for the Isla Cristalina Belt during the quarter completes the senior management positions in exploration. Devin and Alex Raab, who was appointed as the Exploration Manager for the Dom Feliciano and Florida Belts in the previous quarter, report to George Schroer, VP Exploration. Ernesto Lamilla, an experienced mining engineer, was also appointed as Technical Services Manager during the quarter.

- Exploration drilling at the mine during the quarter was focused on resource definition of the Veta A and Veta Sur deposits. A relatively small section of these vein deposits has provided an inferred resource of 28,700 ounces as of the last resource statement. Detailed definition drilling continues to replace the ounces that have been mined from the resource. Exploration in the coming quarter will focus on more significant strike and down dip extensions of these deposits to build a larger resource. Exploration drilling will also test known parallel veins.
- The Argentinita/Zapuchay district continues to be developed. Work during the quarter focused on completing drilling for resource and reserve estimation and on mapping and sampling further along strike. New zones of mineralization have been identified along strike further north and east of Argentinita at Lilo and Tito Perez respectively. Rock chip samples have returned values of up to 29 g/t Au in oxidized quartz vein material. These deposits are potentially all part of the same shear zone, and further mapping during the quarter will be followed up with drilling to build resources.
- The re-evaluation of the structural setting in the western portion of the Isla Cristalina and a ground magnetic survey over the same area is identifying a priority corridor for exploration between San Gregorio and Argentinita. Sampling and initial mapping at Papagayo, a prospect approximately 5 km west of Argentinita, has identified mineralization associated with a shallow thrust fault and quartz veins. During the coming quarter more detailed mapping of the district will be performed by the Company's structural geologist to develop a conceptual model for the emplacement of mineralization within the district.
- Exploration programmes in the Florida and Dom Feliciano Belts were launched during the quarter. Mapping and sampling at Presidente Terra has confirmed the existence of a 7 km mineralized contact shear between meta sediments and granite rock. New areas of gold mineralization and veining have also been discovered. Mapping and sampling at the Crucera project are confirming extensions to mineralized structures and are identifying new veins. Drilling on this target is planned for the coming quarter.
- The Company has entered into a farm-in and data acquisition agreement with DelcoSur S.A. for exploration properties within the Florida Greenstone Belt. This transaction provides the Company with a number of advanced exploration targets, additional information on existing UME prospects such as Casupa, and historical regional sampling and interpretation work performed on the Florida Greenstone belt. This package allows the Company to accelerate exploration work within the Florida Greenstone Belt and to invest its future exploration expenditure more effectively.

Initial work on the properties acquired will be focused on the Nueva Helvecia property, which is located in the central portion of the Florida Belt. Historic drilling conducted in 1997 by REA Gold Corp at the Campo Rovaina prospect intercepted 10 metres grading 3.2 g/t Au (including 4.85 g/t Au over 5 metres) at a vertical depth of 40 metres. A test trench was excavated by DelcoSur across the surface projection of the drill intercept. Channel samples from the trench averaged 3.28 g/t Au using a one-gram cut off over a width of 12.8 metres. This mineralization coincides with a gold soil anomaly approximately 500 metres long and between 50 to 200 metres wide. The central portion of this gold soil anomaly coincides with a 300-metre long arsenic soil anomaly.

- At Lascano, a drill programme is underway to test the magnetic susceptibility and density of the rock units at various points in the most prominent circular feature of the anomaly. Two drill holes, one on the rim and a second in the centre have been completed. A third drill hole on the rim is in progress and is currently at approximately 700 metres. Drilling is relatively slow given the depth of the holes (up to 1,000 metres), the alluvial coverage over the basement rock (50-100 metres), the fact that the drilling is in low-lying, wet areas and that far more rain has fallen recently than is usual.

- Dominant rock types encountered to date are diorite to gabbro, quartz feldspar porphyry, and basalt lava flows. In the first hole the more interesting rocks encountered were gabbros to diorites with lenses of granophyre. The rocks in this hole were not altered except for near surface oxidation. The second hole showed evidence of iron oxide metasomatism and locally weak (trace) pyrite and chalcopyrite mineralization. This is both interesting and encouraging. Minor clay alteration is associated with this mineralization. Sampling of selective intervals has been carried out for trace element chemistry and petrographic work as well as geophysical characteristics. This work will allow the Company to continue to develop its conceptual model of the geological setting for the anomaly. At present, the Company is working on two possible geologic models as being the cause of the anomalies. One is that large intrusive bodies have entered the surrounding country rock causing the circular pattern. The second is a volcanic caldera. Significant mineral deposits can be associated with these two model types.
- The third drill hole will be completed at the end of April with the remaining three holes expected to be completed over the next three months. Drilling progress will, however, be dependent on weather. Assaying, petrographic work and geophysical property analysis will then follow and take another month to complete. While analysis is ongoing, the Company expects to define a model, select targets to test for mineralized bodies and decide how to progress this significant and unique project in the second half of the calendar year.
- During the quarter, work continued on the diamond project. Kimberlite indicator minerals, including pyrope garnets and chrome spinels have been obtained from follow-up stream sampling for diamonds in the Rivera area during the quarter. This sampling programme, the interpretation of aeromagnetic and gravity surveys, prospecting and air-photo studies have identified a number of priority areas for further work. A detailed ground magnetic survey was performed at one of the priority areas during the quarter and has confirmed magnetic geophysical anomalies consistent with geomorphic features and positive soil and stream sediment indicator minerals. Other priority areas will be followed up and an initial drilling phase is planned for the coming quarter.
- During the quarter the company acquired Southern Era Diamonds Inc's historical Uruguayan geological database including geochemical sampling, drilling results and airborne magnetic surveys. This data will allow UME to accelerate progress on the diamond exploration in Uruguay, supporting its plan to continue to build value in the project, prior to a farm out or initial public offering.

## **FINANCIAL PERFORMANCE**

### **Sales**

Sales of gold for the quarter were \$ 15,801 resulting from the sale of 24,731 ounces of gold at an average price of \$US 638 per ounce. Sales for the corresponding quarter of 2006 were \$ 11,858 which resulted from the sale of 23,230 ounces of gold at an average price of \$ 510 per ounce. Silver sales for the quarter were \$ 330 compared to \$ 220 in the corresponding quarter of the prior financial year. Export cost refunds received during the quarter were \$ 474 compared to \$ 310 in the corresponding quarter of the prior financial year.

Sales of gold for the nine month period were \$ 37,161 resulting from the sale of 65,956 ounces of gold at an average price of \$US 593 per ounce. This compares to \$ 33,935 in the corresponding period of the prior year, which resulted from the sale of 73,111 ounces of gold at an average price of \$ 465 per ounce. Silver sales for the nine month period were \$ 1,173 compared to \$ 585 in the corresponding quarter of the prior financial year.

### **Net Income**

Net profit after tax for the quarter was \$ 3,899 equivalent to basic earnings per share of \$ 0.08. This compared to a profit of \$ 2,322 equivalent to basic earnings per share of \$ 0.05 for the second quarter of 2006. For the nine months to February 28, 2007 net profit after tax was \$ 8,217 equivalent to basic earnings per share of

**Uruguay Mineral Exploration Inc.**  
**Management Discussion and Analysis**  
**February 28, 2007**

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0.17, compared to a profit of \$ 6,506 equivalent to basic earnings per share of \$ 0.14 for the nine month period to February 28, 2006.

Profitability increased in the current quarter due to high production levels at higher sales prices. Operating costs have increased relative to the corresponding periods of the prior financial period but are consistent with the first half of the year.

**Metal Production**

During the quarter 331,058 tonnes of ore at an average grade of 2.79 g/t Au were processed at San Gregorio to produce 27,921 ounces of gold. Gold production for the first nine months was 67,155 ounces. Gold produced in the corresponding quarter and nine months of the prior year was 25,451 and 75,937 ounces respectively. The decrease in production relates to mine design changes at Arenal for geomechanical (pit stability) risk mitigation. A reduction in ore grade excavated during the first half represented a deferral of high grade feed. Part of that deferred high grade ore was excavated and treated in the third quarter, increasing the average grade processed. Continued good ore reconciliation at Arenal will result in additional high grade material being treated in the last quarter in line with previously disclosed forecasts.

Recovery increased during the current quarter as a function of higher gold grades and relatively low silver content. Good elution circuit management also contributed to a consistently high recovery. The high work index of Arenal ore limits throughput and causes high wear, however this is being controlled by blending ore from the softer vein material.

During the quarter 265,000 tonnes of ore and 1,756,000 tonnes of waste were mined from Arenal, bringing the total production for the nine months to February 28, 2007 to 808,000 tonnes of ore and 5,610,000 tonnes of waste. A further 76,000 tonnes of ore and 914,000 tonnes of waste were removed from the San Gregorio East, Veta Sur and Veta A pits. The rehandling of waste previously dumped inside San Gregorio East and above Veta Sur was essentially completed in this quarter. Excavation and processing of ore from Veta Sur has begun although it does not have a NI 43-101 compliant reserve associated with it. Veta Sur has an estimated Inferred Resource of 90,000 tonnes at 2.7 g/t.

Production statistics summarized below.

**Quarterly production statistics**

	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>
	<b>May</b>	<b>Aug</b>	<b>Nov</b>	<b>Feb</b>	<b>May</b>	<b>Aug</b>	<b>Nov</b>	<b>Feb</b>
	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2007</b>
Ore processed (tonnes)	306,238	312,016	312,881	313,967	327,665	315,310	322,214	331,058
Head Grade (g/t Au)	2.67	2.63	2.71	2.68	2.51	2.09	2.09	2.79
Recovery	95.2%	95.3%	93.2%	93.9%	92.46%	90.5%	92.6%	94.1%
Gold produced (ounces)	24,844	25,163	25,323	25,451	25,350	19,175	20,059	27,921

**Expenses**

Operating expenses were \$ 7,374 for the quarter after deferring \$ 341 in deferred stripping costs. Average cash cost per ounce for the quarter was \$ 253 per ounce. For the corresponding quarter of the prior financial year, operating expenses were \$ 5,289 after deferring \$ 803 in deferred stripping costs. Average cash cost per ounce for the corresponding quarter of the prior financial year was \$ 203 per ounce.

For the nine months to February 2007 operating expenses were \$ 21,799 after deferring \$ 1,354 in deferred stripping costs. Average cash cost per ounce for the nine month period was \$ 303. In the first half of the prior year operating expenses were \$ 16,019 with a cash cost per ounce of \$ 199.

**Uruguay Mineral Exploration Inc.**  
**Management Discussion and Analysis**  
**February 28, 2007**

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The table reconciles the difference in costs for the 6 months to November 2006 and the 9 months to February 2007 to the corresponding periods of the prior financial year. The reduction of grade in the current periods and the subsequent drop in production contributes to unit cost increases. Approximately \$ 20 of the cash cost increase is due to a change in strip ratios for the Arenal pit with the remainder due to operating cost increases more fully explained in the November 2006 Management Discussion and Analysis. Operating costs have stabilised at current levels and continuing efforts are being made to optimise the San Gregorio operations to reduce costs.

	<b>9 Months to Feb 2007</b>	<b>6 Months to Nov 2006</b>
Cash cost prior year	\$ 199	\$ 197
Reduced production	35	76
Other cost increases	49	47
Change in deferred strip ratio	20	20
Cash cost 2007	\$ 303	\$ 340

Amortization and depreciation expense was \$ 2,331 for the quarter compared to \$ 2,181 in the prior year. Year to date depreciation was \$ 6,255 for the nine month period compared to \$ 6,497 in the prior year.

**Other Revenues and Expenses**

Corporate expenses were \$ 1,229 for the quarter compared to \$ 705 for the corresponding quarter of the prior financial year. The corporate expense for the nine months was \$ 3,218 compared to the prior year of \$ 1,952. Uruguay capital taxes included in corporate costs were \$ 232 and \$ 596 for the quarter and nine month period compared to \$ 116 and \$ 213 in the corresponding periods of the prior financial year.

The current quarter does not include any results for the fair valuation gold financial derivatives, as all financial derivatives have been cancelled. The corresponding quarter of the prior year included a loss of \$ 937. The year to date fair value adjustments for derivatives was a gain of \$ 2,137 reflecting the winding down of the company's hedge book, compared to a loss of \$ 2,349 in the prior year.

The Company issued 1,316,000 stock options during the nine month period at a weighted average price of \$CAD 4.47. Details of these issues are shown below.

Number	Who Issued To	Price	Vesting
<b>Quarter 1</b>			
421,000	Chris Clark, former Director and President	\$CAD 5.29	Immediate
190,000	Employees	\$CAD 4.77	Three equal annual portions after one, two and three years.
20,000	Contractor	\$CAD 4.10	Immediate.
<b>Quarter 2</b>			
570,000	Executive management and new Director	\$CAD 3.90	Three equal annual portions after one, two and three years.
<b>Quarter 3</b>			
105,000	New senior geologists	\$CAD 3.90	Three equal annual portions after one, two and three years.
10,000	Contractor	\$CAD 3.90	Two equal annual portions after one and two years in concordance with supplier contract

The stock option expense for the three and nine months periods were \$ 278 and \$ 758 respectively against \$ 176 and \$ 334 for the corresponding periods of the prior year.

## **FINANCIAL POSITION**

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

At February 28, 2007 UME had cash and cash equivalents of \$ 7,796 compared to \$ 8,931 at 31 May 2006. Cash flow from operations for the quarter was \$ 4,840 after using \$ 801 in non-cash working capital items. This compared to \$ 3,599, after using \$ 896 in non-cash working capital items in the corresponding quarter of the prior year.

Cash generated from operations during the 9 months was \$ 11,737, after using \$ 1,084 in non cash working capital items. In the corresponding nine months of the prior year cash flow from operations was \$ 10,913 with \$ 2,789 consumed by non cash working capital movements.

### **Capital Expenditure**

Expenditure on property plant and equipment for the quarter was \$ 1,252 with total payments of 7,673 for the 9 months to February 2007. Payments for the quarter included \$651 for pre-stripping of the South Vein and San Gregorio East.

Exploration expenditure was \$ 1,959 for the quarter. \$ 1,417 of this was invested in near mine exploration activities and regional exploration within the Isla Cristalina property, Of this amount, approximately \$ 300 was spent on contract ground magnetic surveys. The remaining exploration expenditure for the quarter was incurred on base metals projects (\$ 232) - mainly Lascano, diamonds (\$ 201) and on other gold projects - Presidente Terra, Chamizo and Crucera (\$ 109).

### **Financing**

During the quarter 434,500 employee options were converted into shares to provide proceeds of \$ 344. For the nine months to February 2007 755,000 options were converted into shares to provide total proceeds of \$ 1,512.

At February 28, 2007 UME had outstanding 500,000 options on convertible notes, exercisable at \$ 4.20. There were also, 3,128,000 outstanding stock options (1,640,000 of which have vested) and 48,529,935 common shares outstanding.

## **EXPLORATION AND DEVELOPMENT**

### **Reserves and Resources**

During this quarter, UME submitted to the CSA its NI 43-101 compliant Technical Report supporting the Mineral Resources and Reserves disclosed in January 2007. Independent geoscientific reports associated with material Mineral Resources were also submitted. These documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The next update of Mineral Resources and Reserves is anticipated to be disclosed in August 2007.

### **Qualified Person's Statement**

The technical information presented in this press release has been reviewed and verified by Mr John Sadek, Vice President Operations and a Mining Engineer, and Mr. George Schroer Vice President Exploration and a Certified Professional Geologist. Mr. Sadek and Mr Schroer are the Qualified Persons for the purposes of the AIM Guidance Note on Mining, Oil and Gas Companies dated March 2006. Mr Sadek has a Bachelor of Engineering (Mining) from the University of Sydney and is a member of the AusIMM and SME. He has over 20 years of international experience in mining. Mr. Schroer has a Masters of Science in Geology from Colorado

State University and is a member of SEG and AIPG. He has over 20 years of international experience in exploration.

### **Studies of Expansion Potential**

During the February quarter, Ausenco International Pty Limited (Ausenco) completed and submitted a Scoping Study on a process plant expansion and heap leaching at the San Gregorio operations. The underlying objective of the studies is to evaluate how production can be maintained and ultimately increased. The deliverables of these studies include:

- assessment of technical feasibility of plant expansion and heap leach processing;
- evaluation of capital and operating costs to an accuracy of  $\pm 40\%$ ;
- identification of technical/metallurgical risk; and,
- development of an action plan to advance studies to feasibility status if warranted.

As a consequence of these studies, the potential impact of reduced unit operating costs upon economic cut-off grades and Mineral Reserves will be assessed.

The specific objective of the plant expansion study is to evaluate the viability of a 50% increase in plant throughput. Conceptually, this is to maintain gold production at 100,000 ounces per year with a head grade more closely aligned with regional lower grade ore sources. However, future exploration success in the discovery of high grade sources would present opportunities to surpass the current 100,000 ounce per year target.

The objective of the heap leaching study is to assess the viability of alternative processing technology to currently uneconomic mineralization and to provide gold production growth not restricted to the capacity of existing facilities. Opportunities may also exist to conduct mixed processing with higher grade material processed using conventional methods and heap leach used to process low grade material.

The definition of an Underground Mining Scoping Study was developed and a consultant (Golder Associates) engaged to perform this work. Whilst the deliverables of this study are identical to those of process expansion, the viability of underground mining at Minera San Gregorio will be an important component in the planning of near term strategic exploration. This study is expected to be completed by May 2007.

### **Exploration General**

The process of strengthening the Company's exploration team and refocusing resources has started to show good progress during the current quarter. Two senior expatriate exploration managers have now been appointed and are responsible for the Isla Cristalina and the Florida Belt/Dom Feliciano Mobile Belt respectively. They have recruited new additional expatriate and local geologists and the exploration team is close to its full strength at 22 geologists. Additional diamond and RC drill rigs have also been commissioned and the company is now focusing on increasing the productivity and utilization of all drill rigs.

### **Isla Cristalina Belt - Minas Del Corrales District (Arenal and San Gregorio)**

Over the past quarter the company has continued its re-evaluation of the Minas de Corrales District. The first three steps in this process have been completed. Firstly, resource drilling has been completed on Arenal, San Gregorio, Ombú and Sobresaliente. The potential for further discoveries in and around these resources is now better defined. Secondly a large ground magnetic survey was completed in February. This survey, together with a re-interpretation of historical radiometric data and new structural interpretation are helping in the mapping of structures which host mineralization in the district. Finally additional emphasis is being placed on understanding the importance of regional structures and the rock units that host mineralization.

Drilling in and around the mine site this quarter was concentrated on the Veta A and Sur deposits. This drilling was predominately associated with drilling off reserves for immediate mining. The Vetas had an estimated 28,700 ounces of inferred resource as of the last resource statement. Drilling has replaced these ounces as they are being mined. It has become apparent that these veins represent the best exploration target next to the present mill site. As a result the Vetas have become one of the main priorities for exploration for the final quarter of the year. Exploration will concentrate along strike and down dip on these structures to significantly increase the resource associated with them. The hosting structures are known to continue along strike under the present dumps and tailings pond. Exploration will concentrate on the extension of these structures in open ground along strike and down dip. Exploration will also be concentrated on the known parallel structures.

Better results from the drill programme are reported below.

Veta A

VARC056	<a href="#">4m @ 0.87 g/t</a> Au from 24m <a href="#">2m @ 1.33 g/t</a> Au from 41m
VARC057	<a href="#">4m @ 0.98 g/t</a> Au from 15m
VARC058	<a href="#">5m @ 2.28 g/t</a> Au from 19m
VARC067	<a href="#">5m @ 4.08 g/t</a> Au from 30m
VARC068	<a href="#">15m @ 2.95 g/t</a> Au from 25m
VARC070	<a href="#">3m @ 1.33 g/t</a> Au from 39m
VARC071	<a href="#">7m @ 5.75 g/t</a> Au from 29m
VARC072	<a href="#">12m @ 2.28 g/t</a> Au from 18m

Veta Sur

VSRC027	2m @ 17.41 g/t Au from 43m
VSRC028	1m @ 2.29 g/t Au from 33m
VSRC031	1m @ 2.17 g/t Au from 31m
VSRC032	3m @ 2.03 g/t Au from 28m
VSRC033	5m @ 1.67 g/t Au from 42m
VSRC034	2m @ 5.44 g/t Au from 34m
VSRC036	6m @ 2.34 g/t Au from 30m

Following independent resources estimates for Sobresaliente released during the quarter additional trenching and drilling was completed to test extensions to the defined resources. Drilling and trenching intercepted similar narrow low-moderate grade intercepts as defined in the main mineralized deposit. No further exploration is planned for this area at this time.

A soil sampling programme performed in the prior quarter over an east west trending structure between Sobresaliente and San Gregorio identified a number of soil anomalies. Four follow-up drill holes on these anomalies were negative with no significant intercepts reported.

During the coming quarters the company plans to test depth extensions of known mineralization at San Gregorio and Arenal.

**Isla Cristalina Belt - Argentinita/Zapucay District**

The Argentinita/Zapuchay district continues to be developed. Work during the quarter focused on completing drilling for resource and reserve estimation and on mapping and sampling further along strike. Mineralization is associated with quartz veins within low angle shear or thrust fault systems. This is the case for the Zapucay, Argentinita, Tito Lopez and Papagayo mineralized systems. This structural system is similar to that found in the San Gregorio mine area and therefore may be part of the the same system as that which hosts mineralization at San Gregorio mine site.

**Uruguay Mineral Exploration Inc.**  
**Management Discussion and Analysis**  
**February 28, 2007**

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Drilling continued in and around the Argentinita deposit. Step out drilling to the southwest along the structure indicates the mineralization decreases and pinches out in this direction. Good results have been obtained from infill drilling of the known mineralized body.

Continued surface mapping, sampling and geophysical surveys have better defined the controlling structure. Drilling between Argentinita and Zapucay deposits is planned for the next quarter. Drill locations are defined by surface mapping and anomalous soil sampling results.

Further afield in the area of Zapucay, surface sampling of quartz vein material has defined visible gold and returned strongly anomalous rock chip results. The anomaly, Tito Lopez, is located 1.5 kilometres northeast of the Argentinita deposit and east of Zapucay.

The most significant results are presented below.

Sample	Au_ppm	ROCK_TYPE
103702	1.63	Qz vein
103705	29.68	Qz vein
103706	13.5	Qz vein
103709	16.01	Qz vein
103714	2.22	Qz vein
103715	11.08	Qz vein
103716	20.25	Qz vein
103717	1.45	Qz vein
103722	11.84	Qz vein
103723	2.12	Qz vein

The re-evaluation of the structural setting in the western portion of the Isla Cristalina and a ground magnetic survey over the same area is identifying a priority corridor for exploration between San Gregorio and Argentinita. Sampling and initial mapping at Papagayo, a prospect approximately 5 km west of Argentinita, has identified mineralization associated with a shallow thrust fault and quartz veins, shears and altered granitic gneiss. The extent of mineralization has not been completely defined. Mapping and sampling continues in this area. Significant results from sampling in the area are presented below. During the coming quarter more detailed mapping of the district will be performed by the Company's structural geologist to develop a conceptual model for the emplacement of mineralization within the district.

Anomalous results are located across a number of quartz veins,.

Sample	Au_ppm	ROCK_TYPE
LAUE1061	0.58	Qz vein
LAUE1062	0.82	Qz vein
LAUE1063	1.6	Qz vein
LAUE1065	0.96	Qz vein
LAUE1067	6.78	Qz vein
LAUE1068	1.43	Qz vein
PAP309	6.44	Qz vein
PAP355	0.66	Qz vein
PAP365	0.68	Qz vein
PAP383	1.33	Altered Granite
PAP429	11.48	Qz vein

**Isla Cristalina – Eastern District**

Regional exploration continued in the eastern half the Isla Cristalina District. Work concentrated on follow up sampling in areas of historic stream sediment anomalies as well as known prospects. A total of 67 rock samples and 74 stream sediment samples were collected.

Rock chip samples to date have concentrated on a broad sampling programme to identify permissive host rocks near historic prospects. To date no significant values have been received from the rock samples.

A total 74 stream sediment samples have been taken to follow up historic anomalies. These samples have been taken up stream from historic sample sites to help focus in on the source of the alluvial gold. Stream Sediment Sampling has concentrated in two areas of the belt, Vichadero in the east and Amarillo located in the north-central portion of the belt. The bulk of the assay results are pending. Preliminary results received in March do indicate that strong Au anomalies lie up stream from previous historic results. These results should help focus exploration efforts into the most prospective areas for follow up work.

**Florida and Dom Feliciano Belts**

Exploration under new management for the Florida and Dom Feliciano mobile belts commenced at the beginning of the quarter. Existing data for all gold projects in the Dom Feliciano and Florida Belts were reviewed and prioritized. The first two projects selected for work were Chamizo and Presidente Terra. Two exploration teams were formed and field offices and core storage facilities were established.

Exploration mapping and sampling have been completed across the Presidente Terra prospect. Results obtained to date have confirmed historic sampling on the property and the existence of a 7 km / >1 g/t Au mineralized contact/shear between Meta-sediments and granitic rock that trends NNE. A new area of Au mineralization (>1 g/t) has been discovered 2 km south of the main trend. Additional quartz veining and breccias with associated hematite, pyrite and magnetite mineralization has been discovered in a number of new locations across the property and will be followed up in the coming quarter.

The most significant results from the surface sampling programme are presented below.

Sample Id.	Project	Au	
		FA AA ppm	GRAV g/t
EX 10501	Pte. Terra	>10.000	16.3
EX 10502	Pte. Terra	>10.000	35.8
EX 10503	Pte. Terra	>10.000	336.2
EX 10504	Pte. Terra	0.249	
EX 10505	Pte. Terra	0.129	
EX 10507	Pte. Terra	0.112	
EX 10529	Pte. Terra	5.604	
EX 10530	Pte. Terra	2.222	
EX 10531	Pte. Terra	6.799	
EX 10553	Pte. Terra	0.306	
EX 10582	Pte. Terra	1.129	
EX 10584	Pte. Terra	>10.000	11.4

UME has entered into a farm-in agreement with DelcoSur S.A.. The agreement will give UME access to all DelcoSur properties which are located in the Florida Belt in southern Uruguay. The agreement also gives UME access to all of the important exploration data DelcoSur has in Uruguay. This database contains several thousand metres of drill core from UME's Chamizo, Mahoma, and Crucera properties. The core and other

historic data will be used to help develop these properties. Drilling is planned on a number of these properties in the coming quarter. In addition to the project specific data, the historical data also includes regional scale information important to understanding the key gold districts of the Florida Greenstone Belt. Properties acquired from DelcoSur will be incorporated in to the exploration plans for southern Uruguay.

Initial work on the properties acquired will be focused on the Nueva Helvecia property, which is located in the central portion of the Florida Belt. Historic drilling conducted in 1997 by REA Gold Corp at the Campo Rovaina prospect intercepted 10 metres grading 3.2 g/t Au (including 4.85 g/t Au over 5 metres) at a vertical depth of 40 metres. A test trench was excavated by DelcoSur across the surface projection of the drill intercept. Channel samples from the trench averaged 3.28 g/t Au using a one-gram cut off over a width of 12.8 metres. This mineralization coincides with a gold soil anomaly approximately 500 metres long and between 50 to 200 metres wide. The central portion of this gold soil anomaly coincides with a 300-metre long arsenic soil anomaly.

Exploration mapping and sampling has been completed on the Chamizo tenements. Results to date of this work have defined structural controls to the known mineralized system. No additional mineralization has been encountered. As part of the farm-in agreement with DelcoSur, a larger land package surrounding the Company's Chamizo tenements known as the Tabare shear zone has been optioned. Historical drill data, mapping and sampling acquired as part of this acquisition will allow the area to be re-interpreted during the coming quarters.

Surface mapping and sampling has started on the Bragado and Casupa/Crucera properties. At Crucera detailed mapping is underway to better define drill targets for the coming quarter. It is planned that a full resource estimate be completed on the known mineralization at Crucera by the end of July 2007. It is important to note that mineralization from historic and recent drill programmes indicates that mineralization is open along strike and down dip. Any resource estimate made at this time will be preliminary.

### **Lascano Geophysical Anomaly**

The Lascano exploration target is composed of three large circular, 20 kilometre in diameter, geophysical anomalies. The anomalies were defined by results from an airborne magnetic survey completed by Bell geophysical. The geophysical features are composed of gravity and magnetic anomalies, both high and low, which form a circular pattern.

A drill programme is underway to test the magnetic susceptibility and density of the rock units at various points in the most prominent circular feature of the anomaly. Two drill holes, one on the rim and a second in the centre have been completed to date. A third drill hole on the rim is in progress and is currently at approximately 700 metres. Drilling is relatively slow given the depth of the holes (up to 1,000 metres), the alluvial coverage over the basement rock (50-100 metres), and the fact that the drilling is in low-lying, wet areas and far more rain has fallen recently than is usual.

Dominant rock types encountered to date are diorite to gabbro, quartz feldspar porphyry, and basalt lava flows. In the first hole the more interesting rocks encountered were gabbros to diorites with lenses of granophyre. The rocks in this hole were not altered except for near surface oxidation.. The second hole showed evidence of iron oxide metasomatism and locally weak (trace) pyrite and chalcopyrite mineralization. This is both interesting and encouraging. Minor clay alteration is associated with this mineralization. Sampling of selective intervals has been carried out for trace element chemistry and petrographic work as well as geophysical characteristics. This work, will allow the Company to continue to develop its conceptual model of the geological setting for the anomaly. At present, the Company is working on two possible geologic models as being the possible cause of the anomalies. One is that large intrusive bodies have intruded into the surrounding country rock causing the circular pattern. The second is a volcanic caldera. Significant mineral deposits can be associated with these two model types. David, can we refer again to copper/gold as we did on 5<sup>th</sup> March or some other minerals; it helps giving some kind of guidance? If we can't, then fine.

The third drill hole will be completed at the end of April with the remaining three holes expected to be completed over the next three months. Drilling progress will however be dependent on weather. Assaying, petrographic work and geophysical property analysis will then follow and take another month to complete. While analysis is ongoing the Company expects to define a model, select targets to test for mineralized bodies and decide how to progress this significant unique project in the second half of the calendar year.

### **Base Metals**

We are continuing to evaluate the best alternatives for realizing value from the Company's non gold assets in Uruguay. Interest from international companies in the base metal and nickel properties is still being received and will be considered. A number of international companies are presently reviewing these projects and the Company is considering how best to take these projects forward.

### **Rivera Diamonds**

During the quarter follow-up stream sampling commenced in the department of Rivera. A second sampling crew was introduced at the beginning of 2007, and a total of 202 stream samples have been collected during the quarter. These samples have been collected as part of the follow-up of the positive results obtained from the 2004 reconnaissance sampling programme in the northeastern part of the Rivera Department. A total of 512 stream sediment samples have been taken and 200 line kilometres of ground magnetic acquisition has been completed since March 2006.

The locations which have been sampled include two drainages and associated tributaries from which micro-diamond has been recovered by a previous explorer, and various locations from which UME has recovered numerous G-9 garnets and chrome spinels, some of which have an interpreted diamond stability field source. During the course of follow-up sampling in the vicinity of one of the micro-diamond locations, a geomorphic circular feature was identified. The area was then covered by a surface ground magnetic survey to further define anomalies.

Final interpretation of the 100 metre line-spaced aeromagnetic survey flown by Bell Geospace during 2006, has identified twenty-two (22) magnetic anomalies for follow-up. These will be field-checked during the May 2007 quarter.

An air-photo study of an area covering 1,360 square kilometres has been completed by Mr. Mike Baker during the quarter. In addition to identifying 18 geomorphic features for follow-up, he has not seen any evidence for drainage capture, and thus has concluded that any kimberlite indicator minerals in drainage systems of the study area are sourced from within Uruguay.

Heavy mineral results have been received from Diotech Laboratories in Perth Western Australia, for 168 stream samples during the reporting period. The recovery of pyrope garnets and chrome spinels has resulted in a further five areas being identified for follow-up sampling, three in the south and two in the north of the project area. One of these areas in the north was further defined by a ground magnetic survey, soil and stream samples. Results from sampling have reported indicator minerals in close proximity to some magnetic anomalies.

The ground magnetic survey has indicated several anomalies for further investigation during the next quarter. In addition, two of the magnetic targets selected from the Bell Geospace survey are coincident with strongly positive samples (pyrope and chrome spinel from the 2004 sample programme).

UME reached an agreement with SouthernEra Diamonds Inc for the purchase of their Uruguay diamond exploration database. The database includes airborne geophysical survey data, heavy mineral results from reconnaissance and follow-up stream sample programmes, electron microprobe analysis of selected kimberlite indicator minerals, and results of a diamond drill programme. The data will be incorporated into UME's database and utilized to further define possible host kimberlite bodies.

**Uruguay Mineral Exploration Inc.**  
**Management Discussion and Analysis**  
**February 28, 2007**

(Thousands of United States Dollars, except where indicated)

During the coming quarter the company plans to trench or drill priority anomalies from ground magnetic surveys. Follow-up stream sampling samples will be collected over the recently identified geomorphic and aeromagnetic anomalies and further ground geophysical surveys will be undertaken at any positive features which are identified from the SouthernEra Diamonds Inc database, and the above follow-up sample programme.

## OUTLOOK

The Company plans to produce 95,000 ounces of gold for the 2007 financial year at a cash cost per ounce target of \$US 290.

## 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.

In December 2004 the Company entered into a matched collar for 50,000 ounces with a strike price for the put of \$US 400/oz and a strike price for the call of \$US 436/oz. This contract required deliveries of 2,500 ounces per month and at February 28 2007 all ounces had been delivered.

In October 2005 the Company entered into a matched collar for 10,000 ounces with a strike price for the put of \$ 436 per ounce and a strike price of the call of \$ 486.50 per ounce. This contract requires deliveries of 2,500 ounces per month with deliveries commencing in July 2006. At February 28 2007 all ounces have been delivered.

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.

The Company does not currently have any hedge contracts in place.

## RELATED PARTY TRANSACTIONS

The Company has no related party transactions.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company's contractual obligations and commitments are as follows

	Total	Less than 1 Year	1-2 Years	2-3 years	3-4 years	4-6 Years
Convertible notes (a)	2,100	1,050	1,050	-	-	-
Finance Lease	445	164	164	117	-	-
Asset Retirement obligations	1,665	-	245	112	116	1,192

(a) As a part of the agreement for the purchase of the net profit interest, as explained in Note 5a and 8d of the financial statements, an additional US\$ 1,050 is also payable after the third anniversary date, if the average monthly price of gold for the previous 36 months exceeds US\$ 400 per ounce.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to make certain estimates which affect the amounts reported in the consolidated statements and related notes. The accounting estimates

considered to be significant to the Company include in-process inventories, net future income and resource tax assets and liabilities, the physical and economic lives of mining assets and mine closure and site restoration costs.

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

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

The economic lives of UME's mining operations and any development asset is based upon the individual mine's mineral reserves. UME's resources and reserves are estimated in accordance with National Instrument NI 43-101 and CIM Definition Standards on Mineral Resources and Mineral Reserves.

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. At May 31, 2006, no write down of the carrying value of these assets was appropriate.

### **Share based Compensation**

UME uses 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 February 28 2007 was \$ 1,665 and is included in the mine closure and site restoration liability. The \$ 334 unamortized balance of asset retirement costs as at February 28, 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. 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.

### **Deferred Stripping Costs**

Effective October 1, 2004 as a result of developing a complete mine plan for the Arenal deposit the Company adopted the industry practice of deferring stripping costs. Previously the company had expensed these costs as it could not reasonably estimate the life of mine strip ratio for deposits being mined.

Using the deferred stripping accounting method mining costs associated with waste rock removed in excess of the life of mine average are deferred and charged to operations on the basis of the average strip ratio for the life of the mine. When the cumulative strip ratio is less than the life of mine average, a provision for future stripping is made.

The average strip ratio for the mine life was estimated to May 31, 2006 to be 4.34:1. At June 1 2006, this ratio was increased to 5.19 and on November 1, 2006 it was changed to 5.75:1.

The amount charged to operating costs is therefore subject to management's ability to estimate the stripping ratio over the life of mine. Any changes to this estimate could have a material affect on the financial statements.

The waste to ore ratio and the remaining life of the mine are both regularly assessed by management to ensure the carrying value and rates of depletion are appropriate.

## **RISK 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 favourable 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, labour 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 accordance to National Instrument NI 43-101 and CIM Definition Standards on Mineral Resources and Mineral Reserves.

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

### **Title Risks**

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

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

### **Political and Economic Risks**

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

### **Arenal Pit Expansion**

In order to mine approximately 75% of the reserves remaining in the Arenal pit, the pit must be expanded to the west and a river diversion completed. All environmental approvals and permits from regulatory bodies associated with this expansion have been received. In principle agreements are in place with respect to land acquisition and an easement is being sought to commence construction prior to final land title being obtained. Should this process be delayed, a consequential delay in high grade ore presentation to the process plant may be suffered in the first quarter of next year.

**Uruguay Mineral Exploration Inc.**  
**Management Discussion and Analysis**  
**February 28, 2007**

(Thousands of United States Dollars, except where indicated)

**QUARTERLY RESULTS**

Quarterly Results (in thousands of US\$ except where otherwise noted)								
	Qtr 4 May 2005	Qtr 1 Aug 2005	Qtr 2 Nov 2005	Qtr 3 Feb 2006	Qtr 4 May 2006	Qtr 1 Aug 2006	Qtr 2 Nov 2006	Qtr 3 Feb 2007
Gold sold (ounces)	22,904	26,049	23,832	23,230	27,284	20,809	20,416	24,731
Average sales price (\$/oz)	422	432	456	510	543	568	565	638
Cash operating cost (\$/oz)	229	212	182	203	243	332	345	253
Operating revenues	10,284	11,721	11,326	12,167	15,992	12,177	12,433	16,606
Net profit interest	(253)	(306)	(329)	-	-	-	-	-
Operating expenses	(5,818)	(5,760)	(4,970)	(5,289)	(5,995)	(6,749)	(7,676)	(7,374)
Contribution Margin	4,213	<u>5,655</u>	6,027	6,878	9,997	5,428	4,757	9,232
Administration	(1,015)	<u>(592)</u>	(655)	(705)	(1,531)	(1,187)	(1,282)	(1,507)
Amortization	(1,785)	<u>(1,749)</u>	(2,567)	(2,181)	(2,245)	(2,015)	(1,909)	(2,331)
Interest and financing costs	(189)	<u>(93)</u>	(81)	(137)	(28)	(88)	(82)	(79)
Other	710	<u>(183)</u>	(643)	(1,108)	(833)	1,275	1,121	75
Income Tax	610	<u>(798)</u>	(137)	(425)	(1,283)	(846)	(854)	(1,491)
Net income for the period	2,544	<u>2,240</u>	1,944	2,322	4,077	2,567	1,751	3,899
Basic earnings per share	<u>0.056</u>	0.048	0.042	0.050	0.090	0.054	0.036	0.080
Cash flow from (used in) operations	<u>2,173</u>	4,548	2,794	3,599	7,445	3,225	3,672	4,840
Cash from (used for) financing	<u>2,221</u>	224	36	168	1,502	1,119	(1,532)	365
Cash invested	<u>(1,791)</u>	(2,835)	(3,925)	(6,520)	(3,606)	(4,730)	(4,883)	(3,211)
Cash on hand	<u>5,501</u>	7,382	6,287	3,590	8,931	8,545	5,802	7,796
Total Assets	<u>42,651</u>	46,635	51,918	51,963	60,008	62,651	62,725	66,177
Shareholders Equity	<u>31,321</u>	33,728	36,236	40,048	45,239	48,639	50,627	54,306

**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.

**Uruguay Mineral Exploration Inc.**  
**Management Discussion and Analysis**  
**February 28, 2007**

(Thousands of United States Dollars, except where indicated)

	Quarter 1 Aug 2005	Quarter 2 Nov 2005	Quarter 3 Feb 2006	Quarter 4 May 2006	Quarter 1 Aug 2006	Quarter 2 Nov 2006	Quarter 3 Feb 2007
Operating expenses (000)	5,760	4,970	5,289	5,995	6,749	7,676	7,374
Other (000)	(424)	(362)	(131)	168	(383)	(756)	(303)
Total cash costs (000)	5,336	4,608	5,158	6,163	6,366	6,920	7,071
Gold production in ounces	25,163	25,323	25,451	25,350	19,175	20,059	27,921
Total cash costs per ounce	212	182	203	243	332	345	253

### 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.

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

(Thousands of United States Dollars, except where indicated)

	May 31, 06	Expenditures	Abandonment's/ Transfers	February 28, 07
Minas de Corrales Gold Belt (1)				
Acquisition	\$ 125	-		\$ 125
Exploration	3,249	3,331		6,580
Deferred administration	63	346		409
	<u>3,437</u>	<u>3,677</u>		<u>7,114</u>
Base Metals Projects (2)				
Acquisition	105	-		105
Exploration	4,162	596		4,758
Deferred administration	1,059	156		1,215
	<u>5,326</u>	<u>752</u>		<u>6,078</u>
Other Gold Projects (3)				
Acquisition	480	-		480
Exploration	777	272		1,049
Deferred administration	397	108		505
	<u>1,654</u>	<u>380</u>		<u>2,034</u>
Diamonds Projects (4)				
Acquisition	65	-		65
Exploration	378	387		765
Deferred administration	37			37
	<u>480</u>	<u>387</u>		<u>867</u>
Regional Exploration (5)				
Acquisition	-	-		-
Exploration and overhead	287	-		287
	<u>287</u>	<u>-</u>		<u>287</u>
	<u>\$ 11,184</u>	<u>5,196</u>		<u>\$ 16,380</u>

No amounts directly related to these projects were expensed.

## Mineral Property Portfolio

Each of the major project areas is described below. Details of work performed in the current financial year on each of the projects are included in the Management Discussion and Analysis for 31 May 2006 and 28 February 2007.

### 1. **Minas de Corrales Gold Project ("MCGP"):**

The MCGP is situated in an inlier of Proterozoic rocks approximately 110 km in length and 40 km in width. It is located in the north of Uruguay approximately 450 km from Montevideo. The San Gregorio processing plant and existing San Gregorio mining operations are located on the western end of the belt. 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. To February 2007 214,622 ounces have been mined from Arenal and a further 243,000 contained Au ounces remain in reserves to be mined. Additional reserves of 80,000 ounces from other deposits exist in the San Gregorio region. The San Gregorio and Arenal deposits are open at depth

### 2. **Base Metals Projects:**

These include the *Dom Feliciano Mobile Belt* iron/copper/gold project where a substantial belt of copper and gold anomalism has been identified approximately 300 km north-east of Montevideo. 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. At *Lascano*, located approximately 250 kilometres north-east of Montevideo, a very strong gravity high approximately 70 kilometres long by up to 40 kilometres wide is considered to be a capable of hosting Norilsk-style nickel mineralization.

3. **Other Gold Projects.** These include *Presidente Terra*, which is located approximately 240 kilometres 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 mineralization controls in order to define further drill targets. The deposit is characterized by a series of short, plunging, high-grade ore zones contained within a broader, low-grade mineralization envelope. At *Chamizo*, which is located approximately 120 km ENE of Montevideo, a gold-bearing metamorphosed acid tuff is being investigated. A new gold project *Casupa*, located 100 km north of Montevideo, has been generated and a drill programme is planned for this area.

4. **Diamonds including Cinco Rios Project.** This project is located in the North of Uruguay and includes the Minas de Corrales area as well as the properties obtained with the acquisitions of Cinco Rios SA. Systematic drainage sampling has identified an area where positive kimberlite indicator minerals are clustered.. 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 programme 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.