ALAMOS GOLD INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(All amounts are expressed in United States dollars, unless otherwise stated)

This management's discussion and analysis ("MD&A") of the operating results and financial position of Alamos Gold Inc. and its subsidiaries ("the Company") is for the three and nine-month periods ended September 30, 2007 compared with the three and nine-month periods ended September 30, 2006. Together with the interim consolidated financial statements and related notes, the MD&A provides a detailed account and analysis of the Company's financial and operating performance for the period. The Company's functional and reporting currency is the United States dollar. This MD&A is current to November 6, 2007 and should be read in conjunction with the Company's Annual Information Form and other corporate filings available at www.sedar.com ("SEDAR"). Management is responsible for the interim consolidated financial statements referred to in this MD&A, and provides officers disclosure certifications filed with securities commissions on SEDAR. The audit committee reviews the interim consolidated financial statements and MD&A, and recommends approval to the Company's Board of Directors.

The MD&A should be read in conjunction with the interim consolidated financial statements of the Company and related notes, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. Refer to Note 2 of the December 31, 2006 and 2005 consolidated financial statements for disclosure of the Company's significant accounting policies. Refer to Note 3 of the September 30, 2007 interim consolidated financial statements for a discussion of changes in accounting policies and presentation.

Note to U.S. Investors

All references to mineral reserves and resources contained in this MD&A are determined in accordance with National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101") of the Canadian Securities Administrators ("CSA") and Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards. While the terms "mineral resource," "measured mineral resource," "indicated mineral resource," and "inferred mineral resource" are recognized and required by Canadian regulations, they are not defined terms under the Securities and Exchange Commission ("SEC") standards in the United States ("U.S."). As such, information contained in this MD&A concerning descriptions of mineralization and resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC. "Indicated mineral resource" and "inferred mineral resource" have a great amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category of resource. Investors are cautioned not to assume that all or any part of the mineral deposits in these categories will ever be converted into proven and probable reserves.

Overview

Alamos Gold Inc. is a publicly traded company on the Toronto Stock Exchange (TSX: AGI). The Company owns 100% of the 28,500-hectare Salamandra group of concessions located in the state of Sonora in northwest Mexico. The Salamandra group of concessions includes the Mulatos mine (the "Mine") and more than nine other prospective exploration targets. The

Mine produces gold in dore bars for shipment to a refinery. Gold may be sold in refined form or as dore. The Company achieved commercial production at the Mine on April 1, 2006.

Ore production from the Mine is derived from the Estrella Pit. Proven and probable reserves in the Estrella Pit as at December 31, 2006 were 31.9 million tonnes grading 1.64 grams per tonne of gold ("g/t Au") or approximately 1.7 million contained ounces of gold.

Global proven and probable reserves for the Estrella Pit, Escondida and El Salto/Mina Vieja areas as at December 31, 2006 totaled 39.7 million tonnes grading 1.61 g/t Au representing approximately 2.1 million contained ounces of gold. Global measured and indicated resources (inclusive of reserves) are 86.4 million tonnes grading 1.24 g/t Au at a 0.5 g/t Au cut-off, or approximately 3.4 million contained ounces of gold.

The Salamandra group of concessions contains both advanced and grassroots exploration prospects. There are several advanced exploration projects near the Estrella Pit that have the potential to continue to add resources and reserve ounces to the global Mulatos deposit, including both mineralization extensions and satellite deposits.

Third Quarter 2007 Highlights

During the three-month period ended September 30, 2007, the Company:

- Reported gold sales of 23,170 ounces at an average realized price of $673 per ounce of gold for gold revenues of $15.6 million.
- Recognized earnings of $0.1 million ($0.00 per share), compared to $0.8 million ($0.01 per share) in the third quarter of 2006.
- Reported positive cash flows from operating activities of $4.0 million ($0.04 per share) compared to negative cash flows of $2.9 million ($0.03 per share) in the third quarter of 2006.
- Produced 21,950 ounces of gold at a cash operating cost of $408 per ounce of gold sold (total cash cost inclusive of royalties of $440).
- Realized a cash margin per ounce of gold sold of $233.

Subsequent to the end of the third quarter, the Company:

- Appointed Mr. Eduardo Luna to the Company's Board of Directors.
- Produced 9,200 ounces of gold in the month of October 2007 and is currently at a production rate of approximately 10,000 ounces per month.
- Collected $5.2 million in Mexican value added tax receivables ($10.7 million total received in September and October of 2007).

Results of Operations

Gold production at the Mine in the third quarter of 2007 was 21,950 ounces of gold in dore and gold sales were 23,170 ounces. On a year-to-date basis, the Mine produced 75,900 ounces of gold and gold sales were 81,250 ounces. Reported Mine production is subject to final refinery settlement.

The table below outlines key quarterly production indicators during the third quarter of 2007 compared with the third quarter of 2006 and on a year-to-date basis to September 30, 2007 and 2006:

Production summary	Q3 2007	Q3 2006	YTD 2007	YTD 2006
Gold production (ounces)	21,950	24,880	75,900	69,450
Ore mined (tonnes)	814,000	1,117,000	2,722,000	3,507,000
Waste mined (tonnes)	2,784,000	3,049,000	7,335,000	7,318,000
Total mined (tonnes)	3,598,000	4,166,000	10,057,000	10,825,000
Ore crushed (tonnes)	838,000	1,290,000	2,797,000	1,290,000
Ore mined (tonnes per day)	9,000	12,100	10,000	12,900
Ore crushed (tonnes per day)	9,200	14,000	10,300	9,800
Waste-to-ore ratio	3.42	2.73	2.69	2.09
Grade (g/t Au)	2.08	1.43	1.86	1.61

Gold production was 12% lower in the third quarter of 2007 compared to the prior year period.

Gold production in the third quarter was adversely impacted by low crusher throughput caused by record rainfall at the Mine in the months of July and August 2007. Crusher throughput averaged 576 tonnes per operating hour in the third quarter of 2007 or 23% lower than in the comparable quarter of 2006. Difficulties in achieving budgeted hourly crusher throughput rates were primarily the result of wet ore causing plugged chutes and screens. While downtime during the rainy season is budgeted, the extent of the impact of record rainfalls on crushing operations during the third quarter of 2007 was not predictable. A number of initiatives are being implemented to increase crusher throughput and to alleviate the impact of high rainfall on the crushing circuit. The Company is in the process of changing from plastic to metal screens which will increase screen capacity and is expected to contribute to improved crusher throughput. In addition, a new preventative maintenance schedule is being implemented and is expected to improve crusher availability. To mitigate the impact of the rainy season, ore scheduling procedures will be modified to increase the percentage of silica-altered ore in crusher feed and exposed chutes and screens will be covered during periods of high rainfall.

As a result of low crusher throughput, ore mined was below budgeted levels, averaging 9,000 tonnes per day. The resulting spare haul truck capacity was used to mine waste that was budgeted to be moved in future periods. Accordingly, the waste-to-ore ratio of 3.42 was 25% higher than in the third quarter of 2006. The increased waste-to-ore ratio is also explained by blast hole-to-block model bench reconciliation results which indicate that the Company mined fewer tonnes of ore, but at a higher grade than predicted in the block model. Year-to-date in 2007, the reconciliation of mined ore to the block model indicates variances of -23%, +16% and -11% for tonnes, grade and ounces respectively. The year-to-date reconciliation was adversely affected by the halo of poor recovery material (referred to as silica altered sulfide or “SAS”) identified in the first quarter of 2007. This area of low recovery material has been substantially mined. Project-to-date, the reconciliation of mined ore to the block model indicates a strong correlation with minor variances of -5%, +3% and -2% for tonnes, grade and ounces.

The Company conducted two separate reverse circulation drill hole testing programs within the SAS or poor-recovery area of the Estrella Pit in order to compare block model recovery to bottle roll recovery. The results of these tests will be used to update the block model and improve the Company's ability to forecast gold production. Additional reconciliation work is being conducted to improve the Company's understanding of recovery trends by ore type, sulfur content and copper content.

The table below compares costs per tonne in the third quarter and year-to-date in 2007 to the same periods of 2006:

Costs per tonne summary	**Q3 2007**	**Q3 2006**	**Change**	**YTD 2007**	**YTD 2006**
Mining cost per tonne of ore and waste	$1.25	$1.13	11%	$1.36	$1.25
Waste-to-ore ratio	3.42	2.73	25%	2.70	2.09
Mining cost per tonne of ore	$5.54	$4.22	31%	$5.01	$3.85
Crushing cost per tonne of ore	$3.03	$1.15	163%	$2.67	$1.55
Processing cost per tonne of ore	$3.05	$1.67	83%	$2.48	$1.65
Mine administration cost per tonne of ore	$1.92	$0.93	106%	$1.50	$1.13
Total cost per tonne of ore	$13.54	$7.97	70%	$11.66	$8.18

Total cost per tonne of ore in the third quarter of 2007 increased 70% from prior period levels due to lower crusher throughput and higher costs. Costs per tonne of ore were also negatively impacted by a higher waste-to-ore ratio in the period. Heavy rainfall in the third quarter of 2007 resulted in crusher throughput of 838,000 tonnes of ore being 35% lower than in the third quarter of 2006, adversely affecting costs on a per tonne basis. Although crusher performance was below expectations in the third quarter, crusher availability improved with the cessation of heavy rainfall.

The impact of rainfall on the Company's crusher throughput and gold production is highlighted in the table below:

Month 2007	Actual Rainfall (mm)	50 Year Average Rainfall (mm)	Crusher Throughput (tonnes)	Crush Size (80% passing/ inch)	Gold Poured (ounces)
June	106	50	336,000	0.3750	8,320
July	507	203	264,000	0.3750	7,070
August	324	196	249,000	0.4375	6,980
September	77	98	325,000	0.4375	7,900
October	50	50	382,000	0.3975	9,200

Mining cost per tonne of material was $1.25 in the third quarter of 2007, 11% higher than in the comparable period of 2006. During the third quarter, drilling and blasting costs were high due to increased consumption of bits and steel and a high powder factor due to drilling of SAS

material which is hard and abrasive. On a year-to-date basis, mining costs were $1.36 in 2007 compared to $1.25 in 2006, an increase of approximately 9%. Higher mining costs throughout 2007 have been the result of scheduled maintenance on the Company's equipment fleet. Component rebuilds and other maintenance costs, which are expensed as incurred, have increased significantly as presented in the table below. The Company expects to incur these levels of major maintenance costs every two to three years (determined based on hourly usage). As the Company acquired the majority of its equipment fleet at the same time, mine operating costs in 2007 included abnormally high maintenance costs as engines, transmissions and other key components all reached the end of their useful operating life at the same time.

	YTD 2007 ($000)	YTD 2006 ($000)	Change ($000)	Change (%)
Haul trucks	2,940	918	2,022	220%
Loading equipment	1,878	876	1,002	114%
Auxiliary equipment	2,013	1,110	903	81%
Total maintenance costs	**6,831**	**2,904**	**3,927**	**135%**
Total mined (tonnes)	10,057,000	10,825,000	(768,000)	(7%)
Cost per total mined	$0.68	$0.27	$0.41	152%

Mining cost per tonne of ore in the third quarter of 2007 was $5.54, or 31% higher than in the third quarter of 2006. This increase is due to higher budgeted maintenance costs in 2007, a higher waste-to-ore ratio and fewer tonnes mined. The waste-to-ore ratio in the third quarter of 2007 was 3.42, or 25% higher than in the three-month period ended September 30, 2006.

Crushing cost per tonne of ore in the third quarter of 2007 of $3.03 was 163% higher than in the same period of 2006. Higher per tonne crushing costs are the result of lower than planned crusher throughput, increased maintenance costs and the Company's efforts to maintain the optimal crusher discharge size. The new crusher was commissioned in July and contributed to crusher performance during the third quarter. However, the adverse effects of heavy rainfall on crusher throughput were significant and the Company was only able to achieve average throughput of 9,200 tonnes per day. Crusher throughput improved to over 12,300 tonnes per day in the month of October 2007, a 34% increase.

Processing cost per tonne of ore in the third quarter of 2007 of $3.05 increased 83% over prior period levels. Processing costs include expenditures incurred with respect to the leach pad, gold recovery plant and refining activities. Higher per unit costs are partially a function of lower tonnage throughput. In addition, lime and cyanide costs continue to be higher than in 2006. The per unit cost of cyanide to the Company has increased approximately 25% in 2007 compared to 2006 and lime costs continue to be adversely affected by high transportation charges. The Company has engaged an international engineering firm to complete the design specifications for the overland conveying system. Construction of the overland conveyor is expected to be completed in the first quarter of 2008. The Company expects the mechanization of the ore-stacking and lime-application processes to result in cost savings.

Mine administration cost per tonne of ore in the third quarter of 2007 was $1.92 compared with $0.93 in the same period of 2006. The majority of the Company's Mine administration costs are fixed in nature. As a result, fewer tonnes of ore crushed results in higher per tonne

administration costs. In addition, costs in the third quarter of 2007 include non-budgeted costs associated with the Company's community relations and Mulatos relocation efforts.

Cash operating cost per ounce of gold sold was $408 in the third quarter compared to $358 in the second quarter of 2007. Cash operating costs per ounce increased 14% in the third quarter primarily due to higher mining and processing costs. Cash operating costs in the third quarter of 2006 were $287 per ounce. Higher maintenance, crushing and processing costs in 2007 have resulted in year-to-date cash operating costs of $363 per ounce being approximately 27% higher than in the comparable period of 2006. The Company's reported cash operating costs per ounce are significantly affected by gold recoveries. Preliminary column tests for the month of August 2007 show recoveries of 34% after 24 days and for the month of July 2007 show recoveries of 55% after 50 days (of the expected 120-day leach cycle). Bottle roll tests of the daily crushed ore composites in September 2007 show 62% recovery (column test results are not yet available). High rainfall in the third quarter affected the Company's ability to optimize solution rates and concentrations percolating through the leach pad, which may have resulted in the Company achieving a lower level of gold recoveries in the quarter than predicted in laboratory testing.

During the third quarter of 2007, the average crush size of ore stacked on the leach pad was 80% passing 7/16th of an inch. This was higher than the crusher discharge size of 80% passing 3/8th of an inch achieved in the second quarter of 2007. The larger crush size was planned as a result of mining a comparatively high percentage of clay-altered oxide material in the third quarter. Gold recovery rates are sensitive to crush size with finer crushed material yielding higher gold recovery. The optimal crush size for the Estrella deposit is 80% passing 3/8th of an inch. However, the optimal crush size varies by ore-type. Oxide material can be more coarsely crushed without a significant adverse effect on gold recovery.

Costs throughout 2007 have been higher than in prior periods and higher than budgeted. The Company had undertaken several initiatives that were expected to reduce costs. Unfortunately, higher than expected rainfall impaired the Company's efforts to improve production and reduce costs in the quarter. However, operational improvements have been made which are expected to benefit future periods. The Company's new ore-classification procedures including close monitoring of blast hole recoveries through bottle roll testing has been successful in ensuring that only ore-grade high-recovery material is stacked on the leach pad, irrespective of the characteristics indicated by the block model. A second operating priority is the implementation of a revised maintenance schedule to improve crusher availability and throughput. In the first quarter of 2008, the overland conveying/stacking system is expected to reduce cash operating costs by decreasing pad-loading costs and improving gold recoveries. Other ongoing key capital investments include the construction of a new diesel station, warehouse and truck maintenance shop, which are expected to improve productivity and reduce costs. In addition, the Company took steps in 2007 to significantly reduce its reliance on contractors and rented equipment. Finally, metallurgical testing is currently underway to review the potential effects of agglomeration, varying pH levels and flow rates on gold recovery. A total of thirteen sulfide and thirteen mixed-ore columns are currently being tested to determine optimal leaching parameters. Increases in gold recovery rates are expected to reduce cash operating costs per ounce.

Cautionary Non-GAAP Statements

The Company believes that investors use certain indicators to assess gold mining companies. They are intended to provide additional information and should not be considered in isolation

or as a substitute for measures of performance prepared with GAAP. “Cash flow from operating activities before changes in non-cash working capital” is a non-GAAP performance measure which could provide an indication of the Company’s ability to generate cash flows from operations, and is calculated by adding back the change in non-cash working capital to “Cash provided by (used for) operating activities” as presented on the Company’s consolidated statements of cash flows. “Mining cost per tonne of ore” is a non-GAAP performance measure which could provide an indication of the mining and processing efficiency and effectiveness at the Mine. It is determined by dividing the relevant mining and processing costs by the tonnes of ore processed in the period. “Cost per tonne of ore” is usually affected by operating efficiencies and waste-to-ore ratios in the period. “Cash operating cost per ounce” and “total cash cost per ounce” as used in this analysis are non-GAAP terms typically used by gold mining companies to assess the level of gross margin available to the Company by subtracting these costs from the unit price realized during the period. These non-GAAP terms are also used to assess the ability of a mining company to generate cash flow from operations. There may be some variation in the method of computation of “cash operating cost per ounce” as determined by the Company compared with other mining companies. In this context, “cash operating cost per ounce” reflects the cash operating cost allocated from in-process and dore inventory associated with ounces of gold sold in the period. “Cash operating cost per ounce” may vary from one period to another due to operating efficiencies, waste-to-ore ratios, grade of ore processed and gold recovery rates in the period. “Total cash cost per ounce” includes “cash operating cost per ounce” plus applicable royalties.

Financial Highlights

A summary of the Company’s financial results for the three and nine-month periods ended September 30, 2007 and 2006 is presented below:

	Q3 2007	Q3 2006	YTD 2007	YTD 2006
Cash provided by operating activities before changes in non-cash working capital (000) (1)	$3,404	$3,709	$15,655	$12,943
Changes in non-cash working capital (000)	$601	($6,565)	($4,011)	($14,245)
Cash provided by (used for) operating activities (000)	$4,005	($2,856)	$11,644	($1,302)
Earnings before income taxes (000)	$409	$1,515	$5,457	$1,960
Earnings (000)	$117	$835	$3,194	$1,120
Earnings (loss) per share – basic and diluted	$0.00	$0.01	$0.03	($0.06)
Weighted average number of common shares outstanding				
- basic	94,215,000	93,403,000	93,943,000	85,583,000
- diluted	96,344,000	96,483,000	96,432,000	85,583,000

(1) A non-GAAP measure calculated as cash provided by operating activities as presented on the consolidated statements of cash flows and adding back changes in non-cash working capital.

In the third quarter of 2007, cash flows from operating activities were $4.0 million ($0.04 per share) compared to negative cash flows from operating activities of $2.9 million ($0.03 per share) in the comparable period of 2006. The increased cash generated from operating activities is due primarily to changes in non-cash working capital. In the third quarter of 2007, the Company invested $3.1 million in gold leach pad and parts and supplies inventories, compared to $6.5 million in the same period of 2006. The number of ounces in the Company's leach pad inventory has been relatively stable throughout 2007. The increased valuation is attributable to higher cost ounces in 2007 replacing lower cost ounces that have been removed from in-process inventory as produced dore. The comparatively lower investment in inventories, combined with the collection of $5.5 million in Mexican value added tax receivables resulted in changes in non-cash working capital of $0.6 million in the third quarter of 2007. Subsequent to quarter-end, the Company collected an additional $5.2 million in Mexican value added tax receivables.

For the nine-month period ended September 30, 2007 the Company had cash flows from operating activities of $11.6 million ($0.12 per share) compared to cash used for operating activities of $1.3 ($0.02 per share) million in the same period of 2006. Cash flows from operations increased throughout 2007 as the Company achieved a higher realized gold price, increased the number of ounces of gold sold and has reduced the relative level of its investments in leach pad, dore and parts and supplies inventories.

The Company recognized earnings before income taxes of $0.4 million in the third quarter of 2007 compared with $1.5 million in the same period of 2006. Earnings after income taxes decreased from a $0.8 million in the third quarter of 2006 to $0.1 million in the third quarter of 2007 as a result of higher costs.

Gold Sales

Details of gold sales are presented below:

	Q3 2007	Q3 2006	YTD 2007	YTD 2006
Gold sales (ounces)	23,170	19,500	81,250	65,950
Gold sales revenues (000)	$15,590	$12,165	$53,345	$39,355
Realized gold price per ounce	$673	$624	$657	$597
Average gold price for period (London PM Fix)	$680	$622	$666	$601

Gold sales revenues were $15.6 million in the third quarter of 2007, 28% higher than gold sales revenues of $12.1 million in the third quarter of 2006. The increase in gold sales revenues is the result of a combination of a 19% increase in the number of ounces sold and an 8% increase in the Company's realized gold price. On a year-to-date basis, gold sales revenues have increased 36% to $53.3 million compared to $39.4 million in the nine-month period ended September 30, 2006. Gold sales have increased as a result of higher gold production and improved timing of refinery settlements.

The Company realized an average gold price of $673 per ounce in the third quarter of 2007, compared to an average London PM Fix spot gold price of $680 during the period. Year-to-date, the Company's realized gold price per ounce is $657 compared to the average year-to-date London PM Fix spot gold price of $666.

The Company generally contracts for the sale of gold twice monthly, but may fix the price at various points in a quarter with the intent of achieving the average London PM Fix spot gold price for the quarter. Periodically, the Company may fix the selling price by entering into gold contracts to lock in a favorable price or provide protection from downside risk. In a steadily increasing gold price environment, the Company's realized gold price per ounce will generally be lower than the average London PM Fix spot gold price.

Operating Expenses and Operating Margins

Mine operating costs allocated to ounces sold are summarized in the table below for the periods indicated:

	Q3 2007	Q2 2007	Change	Q3 2006
Gold production (ounces) [1]	21,950	28,640	(23%)	24,880
Gold sales (ounces)	23,170	30,880	(25%)	19,500
Cash operating costs (000)[2]	**$9,442**	**$11,061**	**(15%)**	**$5,592**
- Per ounce sold	**$408**	**$358**	**14%**	**$287**
Royalties and production taxes (000)[3]	$747	$1,057	(29%)	$623
Total cash costs (000)[4]	**$10,189**	**$12,118**	**(16%)**	**$6,215**
- Per ounce sold	**$440**	**$392**	**12%**	**$319**
Amortization (000)	$2,356	$2,974	(21%)	$1,664
Accretion of asset retirement obligations (000)	$46	$44	5%	$40
Total production costs (000)[5]	**$12,591**	**$15,136**	**(17%)**	**$7,919**
- Per ounce sold	**$543**	**$490**	**11%**	**$406**
- Realized gold price per ounce	$673	$674	-%	$624
- Realized cash margin per ounce [6]	$233	$282	(17%)	$305

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[1] Reported gold production is subject to final refinery settlement.
[2] "Cash operating costs" is a non-GAAP measure which includes all direct mining costs, refining and transportation costs and by-product credits. "Cash operating costs" is equivalent to mining and processing costs as reported in the Company's financial statements.
[3] Production royalties are included as of April 1, 2006 at 5% of net precious metals revenues (as determined in accordance with the royalty agreement).
[4] "Total cash costs" is a non-GAAP measure which includes all "cash operating costs" and royalties and production taxes. "Total cash costs" is equivalent to mining and processing costs and royalties as reported in the Company's financial statements.
[5] "Total production costs" is a non-GAAP measure which includes all "total cash costs", amortization, and accretion of asset retirement obligations. "Total production costs" is equivalent to mining and processing costs, royalties, amortization and accretion of asset retirement obligations as reported in the Company's financial statements.
[6] Realized cash margin per ounce is a non-GAAP measure which is calculated as the difference between the Company's gold sales and mining and processing and royalty expenses as reported in the Company's financial statements.

Production from the Mine is subject to a sliding scale production royalty commencing on commercial production which was established by agreement on April 1, 2006. At current gold prices above $400, the royalty is set at a rate of 5% of the value of gold and silver, less certain allowed refining and transportation costs. Valuations are based on average London PM Fix gold market prices, not actual prices realized by the Company. With the achievement of commercial production on April 1, 2006, the Mine's production to a maximum of two million ounces of gold is subject to royalty. As at September 30, 2007, the royalty was paid or accrued on approximately 150,000 ounces of applicable gold production. Royalty expense for the nine months ended September 30, 2007 was $2.7 million compared to $1.4 million in the same period of 2006.

Exploration

Exploration costs charged to operations during the three months ended September 30, 2007 totaled $536,000 compared with $1,500,000 in the same period of 2006. On a year-to-date basis, exploration costs charged to operations were $1,718,000 compared to $3,374,000 in 2006.

Year-to-date exploration expenses were related primarily to drilling in the Gap and Puerto del Aire areas, costs associated with modeling the El Victor resource area, administrative expenses and property tax payments. In the third quarter and year-to-date in 2006, the Company incurred comparatively higher exploration costs with respect to the El Victor, San Carlos, El Realito and Los Bajios projects.

Corporate and Administrative

Corporate and administrative expenses were $718,000 in the third quarter of 2007 compared to $722,000 in the comparable period of 2006. The key components of this expense are detailed below:

	Q3 2007 ($000)	**Q3 2006** ($000)	**YTD 2007** ($000)	**YTD 2006** ($000)
Salaries and management fees	349	355	1,130	1,480
Legal and audit	97	120	248	369
Office and administration	150	79	468	282
Shareholder communications	67	121	206	313
Travel and accommodation	44	47	196	242
Trust and filing fees	11	-	140	141
	718	**722**	**2,388**	**2,827**

Corporate and administrative expenses of $718,000 in the third quarter of 2007 were consistent with the $722,000 incurred in the same period of 2006. On a year-to-date basis, corporate and administrative expenses were 16% lower than in the nine months ended September 30, 2006. The comparatively lower corporate and administrative expenses in 2007 are primarily due to lower bonuses paid in the first nine months of 2007 and lower legal and shareholder communications costs.

Salaries and management fees of $349,000 in the third quarter and $1,130,000 for the nine months ended September 30, 2007 were 2% and 24% lower than in the corresponding periods of 2006 due to lower bonuses paid or accrued in 2007.

Legal and audit costs of $97,000 in the third quarter decreased from $120,000 in the comparable period of 2006. On a year-to-date basis, legal and audit costs were $248,000 compared to $369,000 in 2006. The Company's deregistration from the SEC in June 2007 has resulted in significantly lower compliance and related costs than otherwise would have been incurred.

Increases in office and administration fees throughout 2007 resulted from increased staffing and activity levels at the Company's administration office in Hermosillo, Mexico. These increases were partially offset by lower shareholder communications costs, travel and accommodation expenses and trust and filing fees.

Corporate and administrative costs in 2007 are expected to approximate $3.5 million, exclusive of unusual items.

Stock-based Compensation

Stock-based compensation expense for the three-month period ended September 30, 2007 was $720,000 compared to $390,000 in the same period of 2006. Stock-based compensation totaled $2,355,000 in the first nine months of 2007 compared to $1,170,000 in the comparable period of 2006. The value of stock-based compensation expense is added to the contributed surplus account within shareholders' equity, resulting in no net effect on total shareholder's equity.

The Company implemented vesting provisions for all stock option grants since December 2005. Under the vesting provisions, 20% of all stock options granted vest on the date of grant and 20% at each subsequent six-month period. The vesting provisions result in the market value of stock option grants being charged to expense in accordance with the vesting terms of the option.

The higher stock-based compensation expense in the third quarter of 2007 is due primarily to a charge of $480,000 representing amortization of the value of the April 29, 2007 grant of 1,990,000 stock options at an exercise price of CDN$7.29.

No stock options were granted during the third quarter ended September 30, 2007. Subsequent to quarter-end, 482,000 stock options were granted at an average exercise price of CDN$6.93.

Accretion of Asset Retirement Obligation

The asset retirement obligation on the Company's balance sheet of $2,801,000 at September 30, 2007 reflects the discounted value of the amount the Company expects to incur on closure of the Mine for reclamation and reforestation activities. The related accretion expense represents the increase in the liability due to the passage of time. Accretion of asset retirement obligation expense of $136,000 year-to-date in 2007 compared to $117,000 in the comparable period of 2006. Quarterly additions to the asset retirement obligation reflect the recognition of additional liabilities associated with increased volumes in the waste dump.

Employee Future Benefits

In April 2006, the Company established a subsidiary employment services company in Mexico. Prior to this, all staff were contract workers paid through an independent third-party company. The transition to a subsidiary company resulted in the Company being required to recognize employee future benefit liabilities associated with its Mexican work force. The Company hired an independent consultant to review and calculate the liability for seniority premiums and termination benefits in accordance with Mexican Labor Law. As at December 31, 2006, the Company accrued an employee future benefit liability of $350,000. At September 30, 2007, the Company modified certain estimates used in calculating the liability resulting in a reduction of the liability of $37,000. Employee future benefits expense of $185,000 in the nine months ended September 30, 2007 is a non-cash charge reflecting the increase in the present value of the employee future benefit liability.

Interest Income

Interest income in the three and nine-month periods ended September 30, 2007 was $41,000 and $156,000 respectively, compared to $103,000 and $291,000 in the comparable periods of 2006 due to higher average cash balances in 2006.

Interest Expense

Interest expense for the three and nine-month periods ended September 30, 2007 and 2006 is composed of the following:

	Rate	**Q3 2007**	**Q3 2006**	**YTD 2007**	**YTD 2006**
Convertible debentures ($000)	5.5%	20	19	55	1,166
Capital lease obligations ($000)	LIBOR + 4.1%	211	191	594	449
Bank loan ($000)	LIBOR + 2.25% (drawn)	162	68	342	252
		393	**278**	**991**	**1,867**

Interest expense related to the convertible debentures in 2007 of $20,000 in the third quarter is consistent with the prior period. Year-to-date interest expense on the convertible debenture of $55,000 is substantially lower than in the same period of 2006. In June of 2006, approximately 97% of the outstanding convertible debentures were converted into common shares of the Company. Interest expense related to the remaining outstanding convertible debentures is approximately $80,000 annually.

Interest expense on capital lease obligations in the third quarter of 2007 was $211,000 compared to $191,000 in the three months ended September 30, 2006. In the first nine months of 2007, interest on capital lease obligations totaled $594,000 compared to $449,000 in the same period of 2006. The increases in interest expense related to capital leases throughout 2007 is due to a higher capital lease obligation as an additional three capital leases have been entered into since the third quarter of 2006.

Interest on the Company's revolving credit facility is charged at LIBOR + 2.25% on the drawn portion after August 25th, 2007 (LIBOR + 2.75% prior thereto). In addition, a standby charge equal to 0.75% of the undrawn balance is charged. Higher interest expense was incurred in the third quarter of 2007 as the outstanding bank loan balance averaged $7 million compared

to $3 million in the same period of 2006. On a year-to-date basis, interest expense associated with the bank loan was $342,000 compared to $252,000 in the same period of 2006. Year-to-date interest expense in 2006 includes certain financing charges which were not incurred in subsequent periods.

Financing Charges

Financing charges in the third quarter and year-to-date in 2007 of $nil compared with $74,000 in the third quarter of 2006 and $375,000 for the nine months ended September 30, 2006. Financing charges in 2006 primarily represented the amortization of deferred financing costs associated with the Company's convertible debenture liability. All deferred financing costs were written off in June 2006 in conjunction with the early conversion of the majority of the outstanding convertible debentures.

Accretion of Convertible Debenture Discount

Accretion expense for the three months ended September 30, 2007 of $18,000 (year-to-date 2007 $49,000) compared to $15,000 (year-to-date 2006 $945,000) in the same period of 2006. The early conversion of the convertible debentures in June of 2006 resulted in a 97% reduction in future accretion expenses related to the convertible debenture. Accretion expense is expected to continue to be minimal in future periods.

Foreign Exchange Loss

The Company recognized a foreign exchange loss of $190,000 in the three-month period ended September 30, 2007 compared with a foreign exchange gain of $166,000 in the same period of 2006. Year-to-date in 2007, the Company recognized a foreign exchange loss of $198,000 compared to $843,000 in the nine months ended September 30, 2006.

The foreign exchange loss in the third quarter of 2007 was due primarily to the effect of the weakening of the Mexican peso against the United States dollar on the Company's net Mexican peso-denominated monetary asset position. The Company's Mexican value added tax receivable balance is denominated in Mexican pesos.

In addition, the strength of the Canadian dollar compared to the United States dollar resulted in a $78,000 foreign exchange loss as the Company's convertible debenture liability is denominated in Canadian dollars. This loss was partially offset by foreign exchange gains on the Company's Canadian dollar bank balances.

The Company realized a foreign exchange gain in the third quarter of 2006 as the Mexican peso strengthened approximately 2.6% against the United States dollar and the Company was in a net Mexican peso-denominated monetary asset position throughout the quarter.

The Company's exposure to foreign exchange gains or losses on its Canadian dollar-denominated financial assets and liabilities in 2007 is minimal, as the Company's only significant Canadian dollar-denominated liability is the outstanding convertible debenture in the amount of CDN$1,471,000, which is partially offset by the Company's Canadian dollar cash holdings.

Significant volatility in the value of the Mexican peso compared to the United States dollar could result in foreign exchange gains or losses. However, subsequent to October 31, 2007,

the Company's exposure to volatility in the Mexican peso was significantly reduced as the majority of the Company's Mexican peso-denominated value added tax receivable was collected.

Income Taxes

Current tax expense in the nine months ended September 30, 2007 of $413,000 represents a 10% withholding tax on intercompany interest charged by the Company's Canadian parent to the Mexican operating subsidiary. Future withholding tax charges will depend on prevailing interest rates and the timing of repayment of intercompany loans.

Future income tax expense for the third quarter and year-to-date in 2007 was $150,000 and $1,850,000 respectively. The Company has provided for future income taxes for the three and nine-month periods ended September 30, 2007 using estimated 2007 effective tax rates of 37% and 34%. Statutory tax rates in Mexico and Canada are 28% and 36% respectively. The effective tax rate for 2007 is adjusted quarterly to reflect the actual level of profits achieved in Mexico, and other factors such as the inflation rate in Mexico and foreign exchange gains and losses, which cannot be forecast with certainty.

Summary of Quarterly Results

The following table summarizes quarterly results for the past eight quarters. Quarterly gold production has been adjusted to reflect final settlements, where applicable.

	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
Gold production (ounces)	5,517	20,950	23,620	24,880	31,720	25,310	28,640	21,950
Gold sales (ounces)	4,950	22,670	23,780	19,500	25,270	27,200	30,880	23,170
Gold sales ($000)	2,285	12,490	14,700	12,165	15,299	16,958	20,797	15,590
Earnings (loss) from operations ($000)	(2,060)	2,285	2,188	1,634	1,446	2,558	2,941	1,062
Earnings (loss) ($000)	(3,143)	572	(287)	835	856	1,189	1,888	117
Earnings (loss) ($ per share) – basic and diluted	(0.04)	0.01	(0.08)	0.01	0.01	0.01	0.02	0.00

The Company was in the pre-commercial stage during 2005 and had no significant revenues. Accordingly, a loss was reported in the fourth quarter of 2005. Commercial production commenced in the second quarter of 2006, however, a loss was incurred as significant charges related to the early conversion of the majority of the Company's convertible debenture liability were incurred. The $0.08 loss per share in the second quarter of 2006 includes a $5.9 million debt settlement charge to retained earnings in relation to conversion of the convertible debentures. The Company expects that the third quarter may continue to represent a seasonal low for gold production based on recent rainfall patterns which have the potential to impact operations.

Financial and Other Instruments

The Company's financial assets and liabilities consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities and the liability portion of a convertible debenture, some of which are denominated in Canadian dollars or Mexican pesos. These accounts are recorded at cost in United States dollars, which approximates fair value, except for the convertible debenture, which approximates its accreted value at each reporting period in United States dollars. The Company is exposed to financial gain or loss as a result of foreign exchange movements against the United States dollar.

The Company's cash and cash equivalents may be invested in short-term liquid deposits or investments which provide a revised rate of interest upon maturity. At September 30, 2007 all reported cash and cash equivalents were held in bank deposit accounts.

In addition to United States dollar costs, the Company also incurs operating costs denominated in both the Canadian dollar and the Mexican peso. Accordingly, the Company's operating costs are affected by changes in foreign exchange rates in those currencies.

The Company has elected not to hedge its exposure to fluctuations in the Canadian dollar by buying fixed rate forward contracts in Canadian dollars. Corporate and administrative costs associated with the Company's head office in Toronto are denominated in Canadian dollars. A 10% increase in the value of the Canadian dollar against the United States dollar could increase the Company's reported corporate and administrative costs by approximately $0.3 million annually.

The Company has exposure to monetary assets and liabilities denominated in Mexican pesos, and significant outstanding amounts receivable or accounts payable denominated in Mexican pesos could result in a foreign exchange gain or loss. The Company has elected not to hedge this exposure by buying fixed rate forward contracts in Mexican pesos at this time as it has monetary liabilities denominated in Mexican pesos which partially offset this exposure and as the exchange rate for the Mexican peso has been relatively stable in recent years.

At September 30, 2007, the Company had outstanding contracts to deliver up to 8,000 ounces of gold in the fourth quarter of 2007. These contracts were not designated as hedges at inception. Due to the increase in the price of gold, the marked-to-market valuation of these contracts resulted in a year-to-date loss of $275,000 at September 30, 2007 which has been classified within "other loss" in the Company's financial statements.

The Company contracts for future gold sales to closely match expected delivery dates within the current financial quarter. At this time, the Company does not anticipate entering into long-term forward sales contracts as the gold price currently appears to have some upward bias due to strong physical and investment demand and weakness of the United States dollar. The Company will continually monitor the effectiveness of this policy.

Investment in Mineral Property, Plant and Equipment

Cash invested in mineral property, plant and equipment for the three and nine-month periods ended September 30, 2007 is broken down as follows:

	Q3 2007 ($000)	**YTD 2007** ($000)
Mineral property and mine development	2,535	3,229
Crusher and conveyor	715	2,725
Leach pad expansion	646	2,849
Other mine infrastructure	217	1,746
Escondida mill study	404	404
Mining equipment	214	655
Office and computer equipment	16	61
Cash invested in mineral property, plant and equipment	**4,747**	**11,669**

Capital spending in the third quarter of 2007 was focused on property acquisition, legal and related costs associated with the relocation of the village of Mulatos, the Escondida mill study, construction of the overland conveyor, the new crusher and leach pad expansion.

Year-to-date in 2007, capital spending was related to relocation efforts, the new crusher, leach pad expansion, an additional storm water pond, treatment pond and improvements to mine infrastructure.

The Company commenced the planned relocation of the village of Mulatos in the third quarter of 2007. Relocation contracts have been signed with nearly half of the families resident in Mulatos. Property owners and possessors are being offered a comprehensive benefits package including compensation for their property and/or relocation benefits. In certain cases, relocation benefits include deferred monthly payments. In the three-month period ended September 30, 2007 the Company spent approximately $2,441,000 in property acquisition, relocation benefits, legal and related costs. The Company has also recognized a liability of $1,070,000 representing the discounted value of expected future payments for relocation benefits to property owners and possessors that had signed contracts with the Company as at September 30, 2007. The discounted value of the liability was capitalized to mineral property, plant and equipment.

In addition, the Company invested $715,000 in crushing and conveying equipment in the third quarter of 2007. The new crusher was completed early in the third quarter at a total cost of approximately $2.0 million. The new crusher has improved the Company's ability to crush to the optimal discharge size which is expected to improve gold recoveries, and to increase crusher throughput capacity. The Company also invested in excess of $0.7 million year-to-date on its planned overland conveyor stacking system, which will eliminate truck loading of the leach pad. It is anticipated that this project will reduce leach pad costs, and increase mobile equipment availability as these trucks can be used elsewhere within the Mine. Leach pad expansion activities cost $2.8 million in the first nine months of 2007. Capital investments in the leach pad expansion were significantly above budget due to higher equipment rental costs incurred during construction delays caused by high rainfall and higher than anticipated leach pad plastic costs.

The Company also invested in excess of $1.7 million on general mine site infrastructure projects during the first nine months of 2007. These expenditures were incurred to improve the Company's existing laboratory facilities, truck shop, warehouse, fuel station and process plant.

In addition, during the third quarter the Company invested $0.4 million in relation to the Escondida feasibility study.

Exploration and Mine Development Activities

Exploration activities during 2007 were focused primarily on near-mine resource-definition projects at El Victor, Gap and Puerto del Aire and regional exploration projects at La Yaqui and El Halcon.

During the third quarter of 2007, the Company invested approximately $620,000 in exploration activities. Exploration costs in the third quarter related primarily to drilling at the Gap and Puerto del Aire areas, resource estimation at El Victor, property taxes and camp and exploration salary costs. On a year-to-date basis, the Company has invested $1,882,000 million in exploration activities, primarily focused on Gap.

Puerto del Aire
In the third quarter of 2007, drilling continued at the Puerto del Aire project, located directly northeast of the Estrella Pit. A total of 17 surface reverse circulation holes have been completed (3,720 meters) to date, in addition to the 24 holes (4,860 meters) drilled in 2006. Potentially ore-grade intercepts extend a minimum of 200 meters beyond the current projected pit margin, suggesting the potential for a pit lay-back. Local high-grade oxide intercepts have been encountered, with the best result to date being 28.42 meters of 5.7 g/t Au (97RE008). Additional drilling results include 19.82 meters of 5.10 g/t Au (06PA004), 39.66 meters of 1.36 g/t Au (06PA009), 27.44 meters of 2.30 g/t Au (06PA018), 47.25 meters of 1.31 g/t Au (06PA019) and 25.91 meters of 2.34 g/t Au. Drilling is nearing completion and resources at Puerto del Aire are expected to be included in the Company's global reserve and resource update in the first quarter of 2008.

La Yaqui
Drill program planning and site selection was conducted during the third quarter based on an evaluation of previous drill holes, surface sampling and geophysical data completed by Placer Dome. Limited drilling in 1995 by Placer Dome discovered a near-surface oxidized gold zone, with intercepts including 47.25 meters of 1.99 g/t Au and 30.48 meters of 1.52 g/t Au. No additional exploration work has been done since 1995. The gold intercepts are located at the southwest end of 1.3 kilometers of a silicified structural zone and large resistivity anomaly, the majority of which has not been drill tested. Drilling at La Yaqui started in early November 2007 with a 41-hole (5,200-meter) reverse circulation program planned. Program objectives are to offset and infill previous ore-grade intercepts and drill test the remaining portion of the structural zone believed to control the gold mineralization. Additional soil gold anomalies to the north of the primary zone of interest will also be tested.

Gap
The Gap area has similar geologic characteristics to the high-grade Escondida Hanging Wall Zone. A large, blind area of concealed silica alteration has been identified that hosts both localized high-grade and thick lower-grade gold intercepts. Surface drilling intercepts have delineated a mineralized area approximately 500 meters long by 150 meters wide, and up to

110 meters thick. Mineralization at the Gap area is continuous with El Victor, with 1,250 meters of strike length identified to date of mineralized intercepts from El Victor through Gap. An additional 100 meters of strike length remains to be explored until the Escondida deposit is encountered.

Surface drilling completed to date has consisted of 38 reverse circulation holes on roughly 50-meter centers (8,540 meters), stepping out to the west from previous El Victor/Gap intercepts. Drilling has resulted in the identification of several additional high-grade gold intercepts, including 4.58 meters of 24.73 g/t Au (07EV049), 7.62 meters of 29.92 g/t Au (07EE029) and 3.04 meters of 24.86 g/t Au (07EE042). These drill results are in addition to previously reported results including 33.5 meters of 4.09 g/t Au (06EV048) and 25.9 meters of 3.85 g/t Au (06EV047).

Drilling at Gap has been technically challenging. The majority of the drill holes encountered ground water and caving conditions associated with a perched aquifer above the mineralized zone. Approximately half of the holes were completed under wet conditions. As a result, there is a potential for down-hole contamination from high-grade at the top of the interval. Underground core drilling and development is planned to further assess the zone.

El Victor

The El Victor resource estimate is in the final stage of completion. All drill holes have been processed and assays received. A total of 137 surface and underground holes representing 12,800 meters were drilled in total in the El Victor portion of the mineralized zone. The estimate was delayed by an underground survey error requiring a complete re-survey of all drill holes and workings and the need to reconfigure the geologic model.

Liquidity and Capital Resources

At September 30, 2007, the Company had $8.9 million in cash and cash equivalents compared to $4.9 million at December 31, 2006. In the nine-month period ended September 30, 2007 cash flows from operating activities of $11.6 million were reinvested in mineral property, plant and equipment. Cash flows from financing activities of $3.9 million resulted in the increase in the Company's cash position.

The Company's working capital position increased in 2007 from a working capital surplus at December 31, 2006 of $32.9 million to $36.7 million at September 30, 2007. In the nine-months ended September 30, the Company generated in excess of $15.6 million in cash flows from operating activities (before changes in non-cash working capital), of which $4.0 million was reinvested into non-cash working capital items. Significant year-to-date investments in working capital include $3.0 million for in-process and dore gold inventories and $1.8 million in parts and supplies inventories. The investment for in-process gold inventory reflects all costs required to load gold-bearing ore onto the leach pad for processing into a gold/silver dore product.

The Company has an unsecured $15 million revolving line of credit with a bank, available for general corporate purposes. On August 25, 2007 the bank increased the line of credit from $10 million to $15 million and reduced the rate of interest from LIBOR + 2.75% to LIBOR + 2.25%. At September 30, 2007, $7 million had been drawn on this facility. In the fourth quarter of 2007, the Company intends to repay a portion of the outstanding line of credit balance.

Accounts payable and accrued liabilities increased from $5.8 million at December 31, 2006 to $5.9 million at September 30, 2007.

In February 2005, the Company issued a 5.5% CDN$50 million convertible unsecured debenture maturing on February 15, 2010. In June 2006, approximately 97% of the outstanding debentures were converted. The early conversion of substantially all of the convertible debentures benefited the Company by significantly reducing its long-term debt and eliminating the accretion, interest and foreign exchange costs associated with the converted debentures. At September 30, 2007, convertible debentures representing CDN$1,471,000 in face value were outstanding.

Subsequent to September 30, 2007 the Company's cash position improved significantly with the collection of $5.2 million of outstanding Mexican value added tax receivable balances. A higher realized gold price combined with increased gold production is expected to contribute to improved operating cash flows in the fourth quarter of 2007.

Changes in Accounting Policy and Presentation

Effective January 1, 2007, the Company has adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; and Section 3861, Financial Instruments – Disclosure and Presentation.

Adoption of Section 3855, Financial Instruments – Recognition and Measurement, resulted in the Company classifying its investment in the common shares of Castle Gold Corporation ("Castle", formerly Morgain Minerals Inc.) as available-for-sale on its interim consolidated balance sheets. The common shares of Castle were received as consideration on disposal of the Company's La Fortuna property and certain inactive subsidiaries. At the transaction date, the net book value of the La Fortuna property and the inactive subsidiaries approximated the value of the consideration received of $1.1 million and no gain or loss was recognized on the transaction.

Available-for-sale financial assets are carried at fair value with changes in fair value recorded in other comprehensive income. In determining fair value, the Company has considered the significance of its Castle common share holdings and the likelihood that it could readily liquidate its shareholdings at the quoted market price. The Company has determined that the fair value of its holdings is not objectively determinable based on actively traded market prices and is carrying its investment in Castle shares at historical cost.

The Company does not apply hedge accounting to its derivative financial instruments and is not impacted by Section 3865, Hedges.

The Company has adopted Section 1510, Other Comprehensive Income with no material impact on the Company's financial statements, however, the format of its statements of operations and comprehensive income/(loss), and statements of deficit were changed accordingly.

Internal Control over Financial Reporting

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the

preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on a review of its internal control procedures at the end of the period covered by this MD&A, management believes its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Changes to Internal Control over Financial Reporting

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent interim period ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Disclosure Controls

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2007 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

Off-Balance Sheet Arrangements

The Company has entered into gold contracts which may, in certain circumstances, be classified as off-balance sheet arrangements. Due to the nature of the contracts entered into and in accordance with the Company's accounting policy, the marked-to-market value of these contracts has been recorded on the balance sheet.

At September 30, 2007, the Company had contracts to deliver up to 8,000 ounces of gold to counterparties in the fourth quarter of 2007, resulting in the recognition of a marked-to-market loss of $275,000 as the contract prices were below the September 30, 2007 spot gold price of $743 per ounce.

Commitments Table

The following table summarizes the Company's contractual obligations at September 30, 2007:

Payments due by period ($000)

Contractual Obligations	Total	Less than 1 year	2 – 3 years	4 – 5 years	More than 5 years
Convertible debenture	1,673	81	1,592		
Bank loan	7,000	7,000	-	-	-
Operating lease	840	120	240	240	240
Capital lease obligations	8,795	2,511	4,928	1,356	-
Employee future benefits [1]	1,100	-	-	-	1,100
Asset retirement obligations	4,470	-	-	-	4,470
Property acquisition obligations	1,258	383	446	429	-
	25,136	**10,095**	**7,206**	**2,025**	**5,810**

[1] Certain termination benefits are provided to Mexican employees on involuntary termination at the end of the life of the mine, as mandated by Mexican Labour Law. In certain circumstances, the Company must also pay other contractual termination or severance benefits, the timing and amount of which are contingent on factors outside of the Company's control.

Contractual obligations also exist with respect to royalties, however, gold production subject to royalty cannot be ascertained with certainty and the royalty rate varies with the gold price.

The Company has signed relocation contracts with certain property owners and possessors in the village of Mulatos. The amount and timing of expected future relocation benefit and property acquisition payments to the residents of Mulatos who had signed contracts with the Company as at September 30th, 2007 are presented in the table above. Although future relocation, property acquisition and legal costs may be material, the Company cannot currently determine the expected timing, outcome of negotiations or costs associated with the relocation of the remaining property owners and possessors and potential land acquisitions.

Outstanding Share Data

The table below describes the terms associated with the Company's outstanding and diluted share capital:

	November 6, 2007
Common shares	
- Common shares outstanding	94,516,230
Stock options	
- Average exercise price CDN$5.58; Approximately 65% vested	6,718,500
Convertible debentures	
- Face value CDN$1.47 million. Convertible into common shares at a rate of 188.6792 common shares for each CDN$1,000 principal amount of debentures	277,547

Outlook

Mine operations were adversely affected by heavy seasonal rainfall throughout the third quarter. Crusher throughput and gold production were significantly below expectations. However, the operational improvements that have been initiated in 2007 are expected to result in continually improving gold production and lower costs in future periods. The Company expects gold production in the fourth quarter of 2007 to be approximately 30,000 ounces.

The Company's operations team was strengthened in 2007 with the addition of five highly-qualified expatriate workers. Manley Guarducci joined the Company as General Manager in March 2007 and has been responsible for substantial improvements in all aspects of mine operations. In the second and third quarters of 2007, the Company hired new managers to lead the mine planning, construction and maintenance departments. In October 2007, an experienced professional took over the gold recovery plant and processing departments.

Throughout 2007, mining operations have taken advantage of the spare capacity resulting from lower than budgeted crusher availability to optimize the Estrella Pit by mining more tonnes of waste than initially planned. As a result, the waste-to-ore ratio and related waste mining costs are expected to be significantly lower in future periods than experienced to-date in 2007. The Company has also mined through the majority of the poor recovery area in that section of the Estrella deposit. This coupled with improved ore-classification procedures is expected to ensure that a production shortfall due to stacking ore with poor recovery characteristics on the leach pad does not recur.

A number of important capital projects have been undertaken in 2007 that, once complete, will benefit mine operations by reducing costs and potentially increasing gold recoveries. The Company's top priority capital project is the overland conveyor and stacking system, which will eliminate truck hauling on the leach pad. The conveyor base is currently being constructed on the leach pad and the electrical work is underway. The stacker, grasshoppers and other conveyors are being erected. This project is expected to be complete in the first quarter of 2008.

The new crusher was installed and commissioned in July 2007 and has been operating effectively. However, substantial improvements in crusher throughput did not materialize until October 2007. Problems associated with crushing wet ore resulted in significant unplanned downtime in the third quarter of 2007. The Company is taking a number of steps that it expects will increase capacity including finer crushing of material through the tertiary crushers, improved preventative maintenance and the installation of metal screens on the bottom deck of all existing screens to increase capacity. Crusher throughput in the month of October 2007 averaged over 12,300 tonnes per day. The Company's objective is to continue to increase crusher throughput in the fourth quarter of 2007 and beyond.

Other significant capital projects include the construction of a diesel station, new warehouse, administration office, truck shop, laboratory and additions to the existing camp. These projects are expected to be substantially complete by the end of 2007 and are expected to enhance operating efficiencies, reduce costs and improve employee morale.

In 2007, the Company has focused significant resources analyzing the recovery issues that affected gold production earlier in the year. Two reverse circulation drilling testing programs have been completed. The objectives of these tests were to define the area of the Estrella

deposit with low recovery characteristics, and to compare block model estimated gold recovery rates with actual bottle roll recovery results. Final results from these tests will enhance the Company's understanding of gold recoveries by ore type and improve the Company's ability to predict future gold production.

In addition to the in-pit drilling program, the Company has hired an independent consultant to study leach pad percolation and stability, and column tests are underway at Metcon in Tucson, Arizona to determine the effects of agglomeration, varying pH levels and crush sizes on gold recoveries.

The Company received the final results of a milling trade-off study in the third quarter of 2007. Metallurgical test work confirmed gold recoveries above 95% from Escondida ore under various milling scenarios. Based on current reserves at Escondida, the study recommends a 500 tonne-per-day gravity plus cyanidation plant. Further economic analysis is required in order to determine whether certain high-grade portions of the Estrella deposit could be economically milled. The Escondida mill feasibility study is ongoing.

A drill rig has been mobilized at La Yaqui, a high priority regional target, and a 41-hole Phase 1 drilling program has commenced. Resource infill and step-out drilling is ongoing at the Puerto del Aire zone, located to the immediate northeast of the Estrella Pit. Additional exploration plans for the fourth quarter of 2007 include soil sampling programs at the El Halcon and La Dura project areas, road building at Cerro Pelon in anticipation of drilling in the first quarter of 2008 and soil geochemistry at the El Carricito project area.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the consolidated financial statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process. For a discussion of the Company's critical accounting estimates, refer to the December 31, 2006 and 2005 MD&A available at www.sedar.com.

Risk Factors and Uncertainties

The financing, exploration, development and mining of any of the Company's properties is subject to a number of factors including the price of gold, laws and regulations, political conditions, currency fluctuations, environmental regulations, hiring qualified people and obtaining necessary services in jurisdictions where the Company operates. The current trends relating to these factors are favorable but could change at any time and negatively affect the Company's operations and business.

The nature of risks and uncertainties are discussed more fully in the 2006 Annual Information Form filed by the Company available at www.sedar.com.

Forward-Looking Statements

Except for historical information contained in this management's discussion and analysis, disclosure statements contained herein are forward-looking, as defined in the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements.

This MD&A contains forward-looking statements concerning the Company's plans for its properties and other matters within the meaning of Section 21E of the Securities Exchange Act of the United States. Forward-looking statements include, but are not limited to, statements with respect to anticipated commencement dates of mining expansions, operations, projected quantities of future metal production, anticipated production rates and mine life, operating efficiencies, costs and expenditures and conversion of mineral resources to proven and probable reserves, and other information that is based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Statements concerning proven and probable reserves and mineral resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the property is developed, and in the case of mineral resources or mineral reserves, such statements reflect the conclusion based on certain assumptions that the mineral deposit can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be "forward-looking statements." Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements.