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 year ended December 31, 2009 compared with the year ended December 31, 2008. Together with the 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 year. The Company's functional and reporting currency is the United States dollar. This MD&A is current to March 12, 2010 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 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 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 consolidated financial statements of the Company and related notes, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Refer to Note 2 of the December 31, 2009 and 2008 audited consolidated financial statements for disclosure of the Company's significant accounting policies. Refer to Note 3 of the December 31, 2009 and 2008 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 30,325-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 several other prospective exploration targets throughout the district. The Mine produces gold in dore bars for shipment to a refinery. Gold may be sold in refined form or as dore. The Mine achieved commercial production on April 1, 2006.

The Salamandra group of concessions contain both advanced and grassroots exploration prospects. There are several advanced exploration projects, including both mineralized extensions and satellite deposits, in close proximity to existing mining operations that have the potential to add resource and reserve ounces.

In addition, in January 2010 the Company acquired two advanced-stage gold development projects in northwestern Turkey. The 14,905-hectare Aği Daği and Kirazli gold projects contain established mineral resources and several highly prospective exploration targets.

Proven and probable reserves as at December 31, 2008 were 47,654,000 tonnes grading 1.35 grams of gold per tonne of ore (“g/t Au”) or approximately 2.05 million contained ounces of gold, providing a mine life of approximately 10 years (at recent production levels). The Company expects to provide a reserve and resource update as at December 31, 2009 in March 2010.

Fourth Quarter and 2009 Year Highlights

In the fourth quarter of 2009, the Company:

- Produced a record 48,000 ounces of gold, a 22% increase over fourth quarter 2008 production of 39,347 ounces.
- Recognized record earnings of $20.1 million ($0.18 per basic share) compared to earnings of $9.1 million ($0.10 per basic share) in the same period of 2008.
- Generated record revenues of $52.6 million, a 62% increase from revenues of $32.4 million in the fourth quarter of the prior year.

In the year ended December 31, 2009, the Company:

- Reported a third consecutive year of strong production growth with 178,500 ounces of gold production in 2009 representing an increase of 18% over production of 151,000 ounces in 2008.
- Realized 29% revenue growth to $171.4 million in 2009 compared to $133 million in 2008.
- Recognized earnings of $56.0 million or $0.52 per basic share, compared to $29.4 million or $0.31 per basic share in the prior year.
- Generated record cash flows from operating activities of $95.6 million ($0.90 per basic share) compared to $65.8 million ($0.69 per basic share) in 2008.
- Announced a positive construction decision for the Escondida mill project, with development commencing in the third quarter of 2009.

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- Increased cash and short-term investment balances by $143.1 million to $186.9 million at December 31, 2009 through the completion of a bought deal financing for net proceeds of $62.2 million and net cash flows from operations.

Subsequent to year-end, the Company:

- Acquired two advanced-stage gold exploration properties in the Biga Mineral District in northwestern Turkey for consideration of $40.0 million cash and the issuance of four million shares of the Company.
- Declared a dividend of $0.03 per share payable on April 30, 2010 to shareholders of record on April 15, 2010.

Results of Operations

Gold production of 178,500 ounces in 2009 increased 18% over gold production of 151,000 ounces in 2008. Gold sales in 2009 increased 17% over the comparable period of 2008 to 177,824 ounces. The table below outlines key production indicators in 2009 and 2008:

Production summary	Q1	Q2	Q3	Q4	2009	2008
Ounces produced (1)	46,000	42,000	42,500	48,000	178,500	151,000
Ore crushed (tonnes)	1,068,000	1,072,000	1,119,000	1,037,000	4,296,000	4,741,000
Grade (g/t Au)	1.71	1.92	1.68	1.94	1.81	2.01
Contained ounces stacked	58,716	66,174	60,439	64,345	249,700	306,377
Ratio of ounces produced to contained ounces stacked	78%	63%	70%	75%	71%	49%
Ore mined (tonnes)	1,047,000	1,026,000	1,155,000	1,092,000	4,320,000	4,780,000
Waste mined (tonnes)	1,532,000	1,081,000	751,000	1,064,000	4,428,000	6,559,000
Total mined (tonnes)	2,579,000	2,107,000	1,906,000	2,156,000	8,748,000	11,339,000
Waste-to-ore ratio	1.46	1.05	0.65	0.97	1.02	1.37
Ore crushed per day (tonnes)	11,700	11,800	12,200	11,300	11,800	13,000

(1) Reported gold production for Q1-Q3 2009 has been adjusted to reflect final refinery settlement. Reported gold production for Q4 and 2009 is subject to final refinery settlement and may be adjusted.

Gold production levels increased significantly in 2009 compared to 2008, primarily as a result of higher gold recoveries. In the fourth quarter of 2008, the Company implemented a cement drum agglomeration circuit with the expectation that this process would improve leach pad percolation and corresponding gold recoveries. Quarterly gold production throughout 2009 exceeded 2008 levels and in the fourth quarter, a record level of quarterly gold production of

48,000 ounces was achieved. Though throughput and grades were lower in 2009 than in 2008, these declines have been more than offset by recovery improvements.

In 2009, the Company budgeted recovery levels of 60%. Production results in 2009 indicate that recoveries exceeded this level. The ratio of the number of ounces produced to the number of contained ounces stacked on the leach pad (hereafter referred to as the “recovery ratio”) was 75% in the fourth quarter and 71% in 2009. The Company attributes the overall trend of higher gold recoveries to improved leach pad percolation resulting from both the ongoing installation of inter-lift liners and better than budgeted results from the drum agglomeration process. The Company also focused specifically on improving the consistency of the crusher discharge size, which reduced crusher throughput to below budgeted levels, but resulted in improved gold recoveries. In addition, in 2009, the blast hole to block model reconciliation indicated a positive variance for recovery, which was a result of the identification of more oxide tonnes than the model predicted. Oxide ore generally has better recovery characteristics than mixed or sulphide ores.

The grade of ore mined and stacked in 2009 of 1.81 g/t Au was higher than the budgeted block modeled grade of 1.60. The reconciliation of mined blocks to the block model continues to reflect both positive tonnes and grade variances. In 2009, the reconciliation of mined blocks to the block model was +16%, +10% and +28% for tonnes, grade and ounces, respectively. In addition to a positive grade variance, positive tonnage variances in recent quarters have resulted from modeled waste being identified as ore. Since the start of mining activities in 2005, the project-to-date reconciliation is -2%, +10%, +8% for tonnes, grade and ounces, respectively. Positive reconciliation variances indicate that the Company is mining more gold than what was indicated in the reserve model. Positive grade reconciliations generally result in higher gold production and lower cash operating costs per ounce, while positive tonnes reconciliations extend mine life and lower the waste-to-ore ratio.

Ore mined per day in 2009 averaged 11,800 tonnes, approximately 10% lower than the 13,100 tonnes per day reported in 2008. Daily crusher throughput in 2009 averaged 11,800 tonnes per day, 9% below the 13,000 tonnes per day average in 2008, as the Company reduced crusher throughput in order to ensure an optimal crusher discharge size.

The following table compares costs per tonne for the periods indicated of 2009 and 2008:

Costs per tonne summary	Q1	Q2	Q3	Q4	2009	2008
Mining cost per tonne of material (ore and waste)	$1.46	$1.93	$2.15	$1.93	$1.84	$1.50
Waste-to-ore ratio	1.46	1.05	0.65	0.97	1.02	1.37
Mining cost per tonne of ore	$3.60	$3.97	$3.54	$3.81	$3.73	$3.56
Crushing/conveying cost per tonne of ore	$1.78	$1.65	$1.66	$2.11	$1.80	$2.00
Processing cost per tonne of ore	$2.26	$2.74	$2.62	$2.34	$2.49	$2.28
Mine administration cost per tonne of ore	$1.57	$1.65	$1.88	$2.10	$1.80	$1.67
Total cost per tonne of ore	$9.21	$10.01	$9.70	$10.36	$9.82	$9.51

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Total cost per tonne of ore in 2009 was $9.82, approximately 3% above the $9.51 incurred in 2008. The marginally higher cost per tonne of ore in 2009 is primarily attributable to a 10% decrease in the number of tonnes of ore mined in 2009 compared to 2008, partially offset by the positive effects of a weaker Mexican peso and a lower waste-to-ore ratio in 2009.

Mining cost per tonne of material was $1.84 in 2009, 23% higher than $1.50 in 2008. The higher mining cost per tonne of material in 2009 reflects a 23% decrease in the tonnes of total material mined resulting from the lower waste-to-ore ratio, as well as higher per tonne drilling costs attributable to higher than planned drill bit wear.

Crushing and conveying cost per tonne of ore in 2009 was $1.80. This represented a 10% decrease compared to the prior year and is primarily attributable to operating efficiencies and an improved preventative maintenance program that has reduced costly unplanned crusher downtime.

Processing cost per tonne of ore in 2009 was $2.49 compared to $2.28 in 2008. Processing costs include expenditures incurred with respect to the leach pad, gold recovery plant and refining activities. The increase is partly attributable to an increase in the per unit cost of key consumables such as cyanide and lime, while consumption for lime has decreased and cyanide consumption has increased. An increase in processing costs has also resulted from the commissioning of the drum agglomeration process, which has resulted in adding cement to the Company's processing cost structure.

Mine administration cost per tonne of ore in the year ended December 31, 2009 was $1.80, slightly higher than the $1.67 incurred in the same period of 2008.

Cash operating costs of $278 per ounce of gold sold in 2009 were 19% lower than the $345 reported in 2008. Cash operating costs per ounce have decreased to record low levels due primarily to higher recoveries. In addition, operating costs have benefited from a comparatively weaker Mexican peso and continuous mine improvement projects. Cash operating costs include total costs incurred in any given period, in addition to inventory adjustments that recognize the allocation of costs to and from the Company's in-process leach pad gold inventory. The Company utilizes a gold process flow inventory model that allocates total costs incurred to the recoverable ounces stacked on the leach pad in that period, and charges each ounce of gold produced on an average cost basis. Accordingly, cash operating costs reflect not only the cash spent in a period, but also an adjustment to reflect the increase or decrease in the leach pad inventory. A reconciliation of total costs to cash operating costs is presented below:

Cash operating cost reconciliation	**2009**	**2008**
Total cost per tonne of ore	$9.82	$9.51
Ore crushed (tonnes)	4,296,000	4,741,000
Total cost	$42,187,000	$45,087,000
Inventory adjustments to reflect additional ounces produced from leach pad inventory and other period costs	$7,376,000	$7,270,000
Mining and processing costs allocated to ounces sold as reported on income statement	$49,563,000	$52,357,000
Ounces sold	177,824	151,560
Cash operating cost per ounce sold	$278	$345

Thoughout both 2009 and 2008, the Company has drawn down its in-process leach pad gold inventory as higher cost ounces are produced and replaced by lower cost ounces. The leach pad inventory, which incorporates both cash operating costs and amortization, decreased from $14.6 million at December 31, 2008 to $7.2 million at year-end 2009. This decrease reflects lower gold retention in the leach pad which is attributable to both a faster leach cycle resulting from the drum agglomeration process, as well as a reduced active leach volume due to the use of inter-lift liners

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 in) 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 costs per ounce” and “total cash costs 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 costs per ounce” as determined by the Company compared with other mining companies. In this context, “cash operating costs per ounce” reflects the cash operating costs allocated from in-process and dore inventory associated with ounces of gold sold in the period. “Cash operating costs 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 costs per ounce” includes “cash operating costs per ounce” plus applicable royalties. Cash operating costs per ounce and total cash costs per ounce are exclusive of exploration costs.

Financial Highlights

A summary of the Company’s financial results for the three-month periods and years ended December 31, 2009 and 2008 are presented below:

	Q4 2009	Q4 2008	2009	2008
Cash provided by operating activities before changes in non-cash working capital (000)[1]	$30,015	$17,054	$88,541	$54,936
Changes in non-cash working capital (000)	$4,764	($590)	$7,066	$10,834
Cash provided by operating activities (000)	$34,779	$16,464	$95,607	$65,770
Earnings before income taxes (000)	$28,467	$8,679	$78,245	$39,021
Earnings (000)	$20,081	$9,140	$55,962	$29,380
Earnings per share				
- basic	$0.18	$0.10	$0.52	$0.31
- diluted	$0.18	$0.09	$0.51	$0.30
Weighted average number of common shares outstanding				
- basic	109,225,000	96,028,000	106,765,000	95,428,000
- diluted	111,257,000	97,300,000	108,749,000	97,111,000

(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.

The Company reported strong financial results in the fourth quarter of 2009, generating cash from operating activities before changes in non-cash working capital of $30.0 million, and a record $34.8 million ($0.32 per basic share) after changes in non-cash working capital. The $34.8 million cash provided by operating activities represents a 111% increase over the $16.5 million ($0.17 per basic share) generated in the fourth quarter of 2008. Earnings in the fourth quarter of 2009 also reached record levels of $20.1 million or $0.18 per basic share, compared to $9.1 million ($0.10 per basic share) in the same period of 2008.

Financial results for the 2009 year improved significantly over 2008 driven by higher gold production, higher realized gold prices and lower mining and processing costs. Cash generated from operating activities of $95.6 million ($0.90 per basic share) increased 45% over 2008 levels, while earnings increased 90% from $29.4 million in 2008 to $56.0 million in 2009.

Gold Sales

Details of gold sales are presented below:

	Q4 2009	Q4 2008	2009	2008
Gold sales (ounces)	49,145	40,176	177,824	151,560
Gold sales revenues (000)	$52,649	$32,400	$171,430	$132,974
Realized gold price per ounce	$1,071	$806	$964	$877
Average gold price for period (London PM Fix)	$1,100	$795	$972	$872

Gold sales revenues in the fourth quarter of 2009 reached a record level of $52.6 million, representing a 62% increase over revenues of $32.4 million in the fourth quarter of 2008.

For the 2009 year, gold sales revenues of $171.4 million increased 29% over revenues of $133.0 million in 2008. The increase in gold sales revenues is attributable to a combination of a 17% increase in the number of ounces sold and a 10% increase in the average realized gold price. The number of ounces sold increased in 2009 compared to 2008 as a result of higher gold production, which benefited from continued improved gold recoveries.

The Company generally enters into forward gold sales contracts in order to match sales contracts with the next expected delivery. The Company's objective is to realize a gold sales price consistent with the average London PM Fix spot gold price. At the current time, apart from short-term forward activity related to gold sales, the Company is fully leveraged to changes in the price of gold.

Assessment of Gold Market

The Company's realized gold price in 2009 was $964 per ounce, compared to an average London PM Fix spot market price of $972. The market price of gold continues to exhibit significant volatility. Subsequent to year-end, the gold price was in excess of $1,100 per ounce. At a gold price of $1,100 per ounce, the Company realizes an operating cash margin (before taxes and corporate and administrative costs) of over $750 per ounce.

Operating Expenses and Operating Margins

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

	2009	2008	Change %
Gold production (ounces) [1]	178,500	151,000	18%
Gold sales (ounces)	177,824	151,560	17%
Cash operating costs (000)[2]	**$49,563**	**$52,357**	**(5%)**
- Per ounce sold	**$278**	**$345**	**(19%)**
Royalties (000)[3]	$8,641	$6,600	31%
Total cash costs (000)[4]	**$58,204**	**$58,957**	**(1%)**
- Per ounce sold	**$327**	**$389**	**(16%)**
Amortization (000)	$22,783	$20,723	10%
Accretion expense (000)	$344	$324	6%
Total production costs (000)[5]	**$81,331**	**$80,004**	**2%**
- Per ounce sold	**$457**	**$528**	**(13%)**
- Realized gold price per ounce	$964	$877	10%
- Operating cash margin per ounce [6]	$637	$488	31%

(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, which is presented net of inventory adjustments.

(3) 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. "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) "Operating 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 ("total cash costs") as reported in the Company's financial statements.

Amortization was $128 per ounce of gold sold in 2009, 6% lower than the $136 per ounce in 2008. A significant portion of the Company's amortization expense is calculated on a units-of-production basis. An updated reserve estimate was prepared as at December 31, 2008 and announced in the first quarter of 2009. The new reserve estimate increased the mine life significantly, resulting in lower per ounce amortization in 2009.

Production from certain mining concessions within the Salamandra district is subject to a sliding scale production royalty. At current gold prices above $400, the royalty is calculated at a rate of 5% of the value of gold and silver production, less certain deductible refining and transportation costs. The royalty is calculated based on the daily average London PM Fix gold market prices, not actual prices realized by the Company. With the achievement of commercial production on April 1, 2006, production to a maximum of two million ounces of gold is subject to royalty. As at December 31, 2009, the royalty was paid or accrued on approximately 507,000 ounces of applicable gold production. Royalty expense in 2009 was $8.6 million, approximately 31% higher than the $6.6 million royalty expense in 2008. The increase in royalty expense is attributable to higher production applicable to the royalty, as well as an 11% increase in the average market gold price in 2009 compared to 2008.

Exploration

The Company's accounting policy for exploration costs requires that exploration expenditures that do not meet the criteria for mine development be expensed as incurred. Total exploration expenditures in 2009 were $9.7 million compared to $5.8 million in 2008. Of the $9.7 million invested in exploration activities in 2009, $5.7 million was expensed related to drilling at the Puerto del Aire Extension ($1.7 million), resource definition drilling and geological modeling at Cerro Pelon ($1.5 million), exploration drilling at San Carlos ($0.7 million), administration costs ($0.7 million), and various other projects ($1.1 million). Capitalized exploration expenditures in 2009 totaled $4.0 million (compared to $1.6 million in 2008) and were composed primarily of costs associated with resource definition drilling at Gap ($2.3 million), Puerto del Aire ($0.9 million) and Escondida ($0.8 million).

Corporate and Administrative

Corporate and administrative expenses of $6.3 million in 2009 were approximately 39% higher than the $4.6 million incurred in 2008. Higher corporate and administrative costs were primarily the result of increased salary costs associated with new employees in the Toronto head office, as well as higher bonuses paid in 2009 compared to 2008. Corporate and administrative costs in 2010 are expected to be approximately $7.5 million, exclusive of unusual items and based on current foreign exchange rates.

Stock-based Compensation

Stock-based compensation expense in 2009 was $5.9 million compared to $4.4 million in 2008. The value of stock-based compensation expense is added to the contributed surplus account within shareholders' equity, resulting in no net effect on total shareholders' equity.

In order to promote employee retention, all stock option grants are subject to vesting provisions under which 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 calculated market value of stock option grants being charged to expense in accordance with the vesting terms of the option. Stock-based compensation expense in 2009 was higher than 2008 as a result of a 63% increase in the number of options granted in 2009, as well as higher amortization charges related to past option grants.

Based on the amortization of the fair value of existing stock option grants only, stock-based compensation expense for 2010 is expected to be approximately $4.0 million. However, additional stock option grants in 2010 will increase this expense.

Accretion

Accretion expense includes accretion of the Company's asset retirement and property acquisition obligation liabilities. The asset retirement obligation liability on the Company's balance sheet of $5.4 million at December 31, 2009 reflects the discounted value of the amount the Company expects to incur on closure of the mine including reclamation and revegetation activities. The Company's estimate of the expected future costs associated with mine closure and reclamation is based on a mine closure plan prepared by management that is reviewed by an independent third-party consultant and adjusted to account for expected inflation rates. The asset retirement obligation liability increased by $1.7 million in 2009 as a result of higher cost inflation assumptions, as well as the provision for liabilities incurred throughout the year to accommodate the expanded leach pad area, waste dump and agglomeration equipment.

Accretion represents the increase in the liability due to the passage of time. Accretion of asset retirement obligation expense in 2009 was $0.3 million compared to $0.2 million in 2008.

Employee Future Benefits

The Company is required to recognize employee future benefit liabilities associated with its Mexican work force. On an annual basis, the Company hires an independent consultant to review and calculate the liability for seniority premiums and termination benefits in accordance with Mexican Labor Law. During 2009, the Company revised its expected mine life estimate to ten years to reflect updated reserves and resources. As a result, the discounted value of the employee future benefit liability was revalued and decreased by $0.2 million, resulting in a $0.2 million non-cash cost reversal. At December 31, 2009, the Company's employee future benefit liability had been reduced to $0.3 million.

Interest Income

Interest income in 2009 was $1.1 million, compared to $0.4 million in 2008. The higher interest income in the current period was attributable to higher average cash balances; partially as a result of the February 2009 bought-deal financing which increased the Company's cash balances by approximately $62.2 million. Current interest rates on deposit accounts and short-term investments are at historic lows.

Foreign Exchange Gain

The Company recognized a foreign exchange gain of $2.2 million in 2009 compared to a foreign exchange loss of $0.1 million in 2008. In 2009, the value of the Canadian dollar ("CAD") strengthened significantly compared to the United States dollar. The exercise of stock options throughout 2009 resulted in an increase to the Company's CAD-denominated cash balances. This created a net CAD asset exposure that resulted in a $1.0 million foreign exchange gain. The value of the Mexican peso ("MXN") strengthened marginally compared to the United States dollar in 2009. In addition, the Company's net MXN-denominated asset/liability position fluctuated significantly during the year as a result of increasing cash balances offset by movements in the future tax liability account. Revaluation of MXN-denominated balances and transactional foreign exchange adjustments resulted in significant foreign exchange gains in Mexico in 2009.

Income Taxes

Tax expense in 2009 was $22.3 million compared to $9.6 million in the same period of 2008. The Single Rate Tax Law (minimum tax) that came into effect in Mexico at the start of 2008 did not contribute to a higher tax expense in 2009, but may in future periods. The Company is cash taxable in Mexico and must calculate and provide for tax installments on a monthly basis. The Company satisfies its tax liability through periodic installment payments, as well as by offsetting refundable value-added tax owed from the Mexican government against its tax payable liability.

The general statutory income tax rate in Mexico for 2009 was 28%. In Canada, the combined federal and provincial statutory income tax rate was 33% in 2009. The effective tax rate in 2009 (calculated as a percentage of earnings before income tax) was 28% compared to 25% in 2008. The effective tax rate results from a number of factors, many of which are difficult to forecast.

In the fourth quarter of 2009, the Mexican government approved tax reform that will increase the statutory income tax rate in Mexico from the 2009 level of 28% to 30% for a three-year period starting in 2010. The Company estimates that the proposed increase in the tax rate could reduce after-tax earnings in Mexico by up to $1.5 million (assuming a gold price of $1,000 per ounce) annually in each of 2010, 2011 and 2012.

In addition, the 2% increase in the Mexican statutory income tax rate has resulted in a revaluation of the Company's future tax liability to the extent that temporary differences are expected to reverse in the three-year period in which the higher tax rate applies. This has contributed to the Company's higher effective tax rate in 2009 compared to 2008.

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.

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Gold production (ounces)	33,253	38,500	39,900	39,347	46,000	42,000	42,500	48,000
Gold sales (ounces)	34,609	35,482	41,293	40,176	40,058	45,420	43,201	49.145
Gold sales ($000)	31,030	32,337	37,207	32,400	35,521	41,978	41,283	52,649
Earnings from operations ($000)	9,423	10,175	11,387	8,708	11,743	17,111	17,984	25,605
Earnings (loss) ($000)	5,703	6,191	8,346	9,140	8,797	12,969	14,115	20,081
Earnings (loss) ($ per share) – basic/diluted	0.06	0.07/ 0.06	0.09	0.10	0.09	0.12	0.13	0.18

Gold production, gold sales and earnings have generally trended higher over the past eight quarters as the Company has optimized mining operations and benefited from rising gold prices. Higher realized gold prices and gold sales resulted in improved financial results in each consecutive quarter of 2009. Generally, third quarter operating and financial results could represent seasonal lows if the anticipated rainy season in northern Mexico is significantly worse than average.

Financial and Other Instruments

The Company's financial assets and liabilities consist of cash and cash equivalents, short term investments, amounts receivable, accounts payable and accrued liabilities and current and future income tax liabilities, some of which are denominated in Canadian dollars ("CAD") or Mexican pesos ("MXN"). The Company is exposed to financial gains or losses 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 December 31, 2009, the majority of the Company's reported cash and cash equivalents were held in bank deposit accounts or 60-day to 90-day term deposits. The Company's short-term investments are generally term deposits with an initial term-to-maturity of greater than 90 days.

In addition to United States dollar costs, the Company also translates operating costs denominated in both the CAD and the MXN into United States dollars. Accordingly, the Company's operating costs are affected by changes in the foreign exchange rates of those currencies.

In 2009, the Company had not hedged its exposure to fluctuations in the CAD by buying fixed rate forward contracts in CAD. Corporate and administrative costs associated with the Company's head office in Toronto are denominated in CAD. A 10% increase in the value of the CAD against the United States dollar could increase the Company's reported corporate and administrative costs by approximately $0.6 million annually.

The Company also maintains CAD cash balances, which are not offset by CAD-denominated liabilities. In 2009, the impact of the strengthening CAD resulted in the Company recognizing a $0.9 million foreign exchange gain. While the Company realized a foreign exchange gain on its CAD cash holdings as a result of the strengthening CAD, a higher CAD also had the adverse effect of increasing the Company's corporate and administrative costs when converting CAD expenses into United States dollars.

The Company also has exposure to monetary assets and liabilities denominated in MXN. Significant cash balances, outstanding amounts receivable, accounts payable or tax liabilities denominated in MXN expose the Company to foreign exchange gains or losses. The Company has acquired additional monetary assets denominated in MXN to attempt to mitigate its balance sheet exposure to changes in the MXN/United States dollar exchange rate resulting from its MXN-denominated taxes payable and future tax liability balances.

In 2009, the value of the MXN strengthened marginally compared to the United States dollar. As the MXN strengthens against the United States dollar, the Company's operating costs (as reported in equivalent United States dollars) increase. A 10% increase in the value of the MXN compared to the United States dollar could increase the Company's mining and processing costs and increase earnings before income taxes by approximately $2.5 million annually. Conversely, a 10% weakening in the value of the MXN could increase earnings before income taxes by the same amount.

Investment in Mineral Property, Plant and Equipment

A breakdown of the cash invested in mineral property, plant and equipment for the year ended December 31, 2009 is presented below:

	2009 ($000)
Operations capital	
Construction	4.742
Close crushing circuit project	12,394
Component changes	1,777
Mobile equipment	598
Pit design and slope stability	628
Other	4,807
	24,946
Development	
Escondida development	6,988
Acquisitions and Mulatos relocation	665
Capitalized exploration costs	3,978
	11,631
Cash invested in mineral property, plant and equipment	**36,577**

Capital spending in 2009 was focused primarily on the closed crushing circuit project, Escondida development, leach pad expansion and capitalized exploration costs.

Operations Capital
During 2009, the Company invested $12.4 million in the closed crushing circuit project. By closing the crushing circuit, the Company expects to be able to produce a crusher discharge size of approximately 100% passing 3/8 of an inch. Studies have indicated that closing the circuit could increase recoveries by between four and seven percentage points. Final construction activities were completed in the fourth quarter of 2009 and commissioning occurred in December 2009. The new closed crushing circuit has been operating effectively since early January 2010, and is expected to result in improved recoveries in 2010.

Other key capital spending in 2009 included $2.0 million in construction costs related to a water treatment plant and a new exploration sample warehouse, $1.7 million for inter-lift liners and leach pad expansion activities, $1.8 million for component changes and $0.4 million in leasehold improvements at the Company's head office in Toronto.

Development
Development of the Mulatos Pit, including the Escondida zone, is progressing according to plan. In the second quarter of 2009, the Company announced a positive production decision for the high-grade Escondida zone. The Company`s plan is to construct a 500 tonne-per-day milling operation whereby high-grade ore will be processed through a gravity circuit with the mill tailings being leached on the existing heap leach pad. Total process recovery is expected to be in excess of 90% and the mill construction cost is estimated at $17.5 million. Operating costs are expected to be approximately $12.08 per tonne of ore or $39.62 per ounce of gold sold. In addition to the capital costs associated with construction of the mill, a total of 27 million tonnes of waste are required to be removed before mining activities can commence. A mining contractor was selected and mobilized in the third quarter of 2009 and has been achieving its waste removal budget. The Company invested a total of $7.0 million on development activities in 2009, which is on schedule for completion by the fourth quarter of 2011.

Exploration

Exploration activities in 2009 have focused on near-mine resource expansion and regional exploration targets. In May 2009, the annual exploration budget was increased from $7.0 million to $10.0 million to reflect continued exploration success. Actual spending for 2009 was consistent with budget at $9.7 million.

Exploration activities at Mulatos in 2009 progressed significantly with up to six drill rigs active throughout the year. Exploration spending totaled $9.7 million in 2009, of which $5.7 million was expensed while $4.0 million of spending at Gap, Puerto del Aire and Escondida was capitalized as mine development costs. In 2009, the Company completed over 72,400 metres ("m") of drilling in 357 drill holes. For comparative purposes, the Company drilled 36,800 m in 203 drill holes during 2008. Exploration activities were focused on the following mineralized zones in 2009:

(All amounts are expressed in United States dollars, unless otherwise stated)

Zone	Location	Stage
Gap & Escondida	Northeast of the Mulatos Pit	Resource definition
Cerro Pelon	2.5 kilometres southwest of the current leach pad facilities	Resource definition
Puerto del Aire Extension	0.8 kilometres northeast of the Mulatos Pit	Exploration and resource definition
San Carlos	Northeast of El Victor pit	Resource definition
El Carricito	19 kilometres southwest of the Mulatos Pit	Early-stage prospect

Gap & Escondida

The Gap zone is located between the El Victor and Escondida resource areas and was partially drilled on 50 m centres in late 2007. Based on this drilling, the Company included an inferred resource of 190,000 ounces in its 2008 reserve and resource statement. Following a first quarter core drilling program, in-fill drilling on 25 m centres using both core and reverse-circulation ("RC") rigs was conducted in the third quarter of 2009. In 2009, the Company drilled a total of 21,903 m in 106 holes at Gap.

Results from the definition drilling program received to-date confirm the continuity between the Escondida, Gap, El Victor and San Carlos resource areas, outlining a single 2.7-kilometre, southwest-to-northeast trending mineralized horizon.

The other significant positive outcome from the 2009 Gap drilling program is that in addition to converting the 2008 inferred resource estimate at Gap to the measured and indicated category, the Company expects to be able to add new resource ounces.

Exploration work at Escondida in 2009 included additional drilling to further define new high grade zones, in addition to completing the drill hole pattern on 25 m centres. A total of 10,339 m in 56 holes were drilled at Escondida in 2009.

Cerro Pelon

Cerro Pelon was discovered in 2008 following a program of geological mapping and geochemical sampling, once again demonstrating the potential to find additional deposits in close proximity to the Company's existing mine operations. Cerro Pelon contains oxidized gold-bearing vuggy silica that starts at surface and is geologically similar to part of the Mulatos deposit. In the second quarter of 2009, definition and in-fill drilling on 20 m centres for 7,171 m in 65 holes was completed. The results of this program were received in the third quarter of 2009 and will be incorporated into the Company`s global reserve and resource update which is scheduled to be released in March 2010.

Gold mineralization at Cerro Pelon starts at surface and is hosted in strongly oxidized structural breccias. Drill results indicate that Cerro Pelon is roughly 250 m long, varies in width from 30 m to 80 m and is 70 m to 150 m thick with drill cutting composites typically grading between 2-3 g/t Au. Cyanide-extractable gold assays indicate high gold recoveries using the heap leach process currently used at the mine.

Puerto del Aire ("PdA") Extension
Early in the second quarter of 2009, a step-out core drill hole collared 320 m northeast of the last mineralized intercept (or approximately 800 m from the Mulatos Pit) encountered a 99-m thick zone of intense silica alteration having characteristics similar to both the Escondida high grade and the Puerto del Aire zones. Assay results from five wide-spaced holes confirmed that the zones of intense silica alteration were gold-bearing. These results established a new mineralized corridor that is sub-parallel to the Escondida to San Carlos trend, and is an extension of PdA.

This mineralized extension of PdA has relatively complex geology, is open in all directions, and appears to have a minimum drill-indicated strike length of 750 m, a width of at least 200 m, and ranges in thickness from 40 m to 125 m. Typically, mineralization begins about 175 m to 200 m below surface and appears to grade in the range of 1-3 g/t Au based on drill cutting composites, with localized high-grade zones. Combined with the main PdA zone and including a 175 m interval that lacks mineralization, the zone strike length identified to-date extends 1.4 km from the Estrella pit margin and remains open to the northeast.

Drill results received to date indicate grades similar to those in the main Puerto del Aire zone, with numerous intercepts in the 1-3 g/t Au range over significant thicknesses such as 2.80 g/t Au over 28.96 m in 09PA159, 3.32 g/t Au over 22.86 m in 09PA162, 8.33 g/t Au over 6.10 m in 09PA170, 2.49 g/t Au over 16.77 m in 09PA174, and 2.48 g/t Au over 13.72 m in 09PA180. Drill spacing to-date has been relatively wide (greater than 75 m), and the potential for the discovery of additional high-grade zones remains. Exploration activities to-date indicate that the mineralization is hosted in sulfide material. Accordingly, the potential for reserve addition will be highly dependent on the recovery characteristics, as well as the discovery of additional high-grade zones that could improve the economics of mining the zone. In 2009, the Company drilled a total of 21,858 m in 74 holes at Puerto del Aire.

San Carlos
In November 2009, the Company began a Phase II resource definition drilling at San Carlos with the objective of upgrading inferred resources to the measured and indicated categories, expanding the known limits of the mineralized system, and further defining the known high-grade structurally controlled zone. In 2009, the Company drilled a total of 6,694 m in 27 holes at San Carlos with drilling continuing into the first quarter of 2010.

The San Carlos resource area is located to the northeast of the proposed El Victor Pit along the 2.7-kilometre continuous mineralized trend that controls gold occurrences from the Mulatos Pit. San Carlos is the easternmost gold occurrence discovered to date along this trend. Highlights from the ongoing drill program at San Carlos were announced in January 2010 and continue to demonstrate the robustness of the San Carlos zone.

Recent field geologic mapping indicates that the geologic system extends to the southeast beyond the established resource area and this area has been targeted for drill testing in 2010. Mapping of the underground workings, in conjunction with recently completed core holes, have resulted in new insights into the deposit geology and gold mineralization controls. Gold mineralization occurs within the same stratigraphic horizon as those hosting the high-grade mineralization at the Escondida deposit, but also occurs within hydrothermal breccias and in a high-angle, cross-cutting, sheeted fracture/veinlet zone that is up to 45 m wide. Multiple mineralizing events are indicated, with the most significant being a late stage gold-barite event with local bonanza gold grades. Hydrothermal breccias are much more abundant at San Carlos than elsewhere in the Mulatos District. Another particularly unique feature is the presence of a mafic dyke swarm in close proximity to the high-grade gold, indicating deep-seated structural control and suggesting that the dykes utilized the same structural conduits as the gold-bearing fluids, a feature frequently observed in major gold deposits worldwide. These dykes have not been previously identified in the Mulatos District.

Drilling at San Carlos is ongoing and is expected to be completed by the end of the second quarter of 2010. Once the drilling program is completed, modelling will be performed and San Carlos will be integrated into the 2010 year-end reserve and resource statement.

El Carricito

Reconnaissance geologic mapping and surface geochemical sampling was completed at El Carricito in the fourth quarter of 2009 with the objective of generating drill targets for testing. El Carricito remains the largest unexplored area of alteration in the district. The known extent of the El Carricito silica altered zone is 5.5 km along strike and up to 2.7 km wide. A kilometric size coincident geochemical anomaly covers part of the alteration zone. Drill targets have been selected and drilling will commence once land access to the proposed drill areas and required permitting is obtained, expected in the first half of 2010.

Liquidity and Capital Resources

During 2009, the Company's cash and short-term investments balance increased $143.1 million as a result of a $62.2 million bought deal financing completed in the first quarter of the year combined with strong cash flows from operations. At December 31, 2009, the Company had $186.9 million in cash and cash equivalents and short-term investments compared to $43.8 million at December 31, 2008.

The Company's working capital surplus increased from $63.0 million at December 31, 2008 to $196.8 million at December 31, 2009.

Cash flows from operating activities in 2009 were $95.6 million or $0.90 per basic share. The Company reinvested $36.6 million in capital and development activities in 2009, primarily focused on closing the crushing circuit, development of the Escondida zone, and exploration activities. Proceeds from stock option exercises added $15.8 million to the Company's cash balances during 2009.

During 2009, the Company's cash position benefited significantly from a reduction in the carrying value of in-process leach pad inventories. These inventories represent costs that are incurred in the process of converting mineralized ores into partially refined precious metals, and are expensed when refined metal is sold. Due to the increased speed of recovery associated with finer crushing, reduced throughput and the use of inter-lift liners which minimize solution retention, the estimate of total recoverable ounces remaining to be leached from the pad ore has decreased. In addition, lower operating costs associated with more efficient mining operations and a decrease in the value of the Mexican peso have resulted in the average cost of recoverable ounces in inventory also declining. The net effect is that approximately $6.0 million has been removed from in-process inventory and converted to cash since December 31, 2008.

In the third quarter of 2009, the Company mobilized a mining contractor to begin waste removal associated with development of the Escondida zone of the Mulatos Pit. Development of the Escondida zone is expected to take up to two years, and to exceed $40.0 million in development costs. In addition, the Company intends to construct a mill to process high-grade ore from the Escondida deposit. The expected capital cost of constructing the gravity mill is approximately $17.5 million.

In addition to expansion activities at its operations in Mexico, the Company announced in January 2010 that it had completed the acquisition of two advanced-stage gold exploration properties in northwestern Turkey for consideration of $40.0 million in cash and the issuance of four million shares of the Company. The Company is in the process of preparing a scoping study which it expects to complete in the first quarter of 2010. The Company expects to invest significantly in exploration and development activities at its projects in Turkey over the next several years. However, the amounts and timing of cash out-flows associated with development of these properties will be based on the scoping and pre-feasibility studies, which are not yet complete.

With cash and short-term investment balances at December 31, 2009 of $186.9 million, working capital of $196.8 million, no debt, and strong cash flows, the Company believes that it is well positioned to support the further development and expansion of its existing mining and development operations, aggressive exploration spending at its properties, as well as acquisitions.

Conversion to International Financial Reporting Standards (“IFRS”)

Effective Februrary 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (“IFRS”) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement into IFRS for comparative purposes of amounts previously reported under Canadian GAAP by the Company for the year ended December 31, 2010, including a revised opening balance sheet as at January 1, 2010.

In 2008, the Company completed a preliminary IFRS diagnostic which highlighted several key areas of difference between existing Canadian GAAP and IFRS, specifically property, plant and equipment, provisions, income taxes and exploration costs.

In early 2009, the Company developed an IFRS project plan assigning responsibilities and outlining the proposed timing of execution of key IFRS conversion projects. The Company’s IFRS project plan stipulates several project phases. The first phase included initial training and education for key finance staff. This phase was largely completed in the third quarter of 2009, with key members of the IFRS project team attending external courses, as well as conducting self-study training.

The next phase of the Company’s IFRS project was the “impact assessment” phase, whereby the project team reviewed each of the significant areas of difference highlighted by the initial diagnostic. In this phase, the project team determined the potential qualitative differences between Canadian GAAP and IFRS and assessed the impact of these differences on the Company’s accounting policies, information systems, internal controls over financial reporting and other business processes. To-date, the Company has identified the following key areas of potential difference with respect to the accounting for:

- Property, plant and equipment – The Company believes that its existing accounting procedures adequately account for componentization as required under IFRS. The Company is in the process of reviewing its fixed asset subledger in detail and having independent appraisals performed in order to identify significant differences between the carrying value and fair value of certain mining equipment.

- Provisions – Differences between Canadian GAAP and IFRS with respect to the discounting calculation applied to future asset retirement costs are expected to result in a decrease in the Company's asset retirement obligation liability.
- Share-based payments – The Company expects to change its methodology used to calculate stock option forfeitures. As a result, the Company is in the process of implementing an automated software program for calculating stock-based compensation expense under IFRS.
- Income taxes – The Company is evaluating a software product which could assist in automating the tax provision and tax accounting procedures.
- Exploration costs – The Company has evaluated its existing policy for exploration cost accounting and does not expect any of the differences between IFRS and Canadian GAAP to impact its accounting for exploration costs.

The Company has completed a preliminary review of the above areas of potential difference on its information systems and is planning a number of new software implementations as a result. In addition, the Company intends to implement an integrated enterprise risk management software system in 2009 in order to facilitate financial reporting under IFRS. New internal controls with respect to new methods of accounting and financial reporting will be adopted as these new systems, policies and procedures are established.

The Company has completed the majority of its impact assessment phase. The next project phase consists of developing new IFRS-compliant accounting policies, implementation of these policies, calculating the Company`s opening balance sheet under IFRS as at January 1, 2010, related testing and additional training as required. The Company expects to have developed new IFRS-compliant accounting policies and calculated its opening balance sheet under IFRS by the end of the second quarter of 2010.

Based on the work the Company has completed to-date, the most significant differences between IFRS and Canadian GAAP are expected to be to terminology, financial statement presentation and disclosure. No material quantitative differences have been identified as a result of the impact assessments complete to-date, however, this is subject to change based on the Company's ongoing review and continued changes to the IFRS standards.

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 appropriately designed and operate effectively 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 internal control over financial reporting in the three-month period and year ended December 31, 2009.

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 December 31, 2009 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 is currently fully exposed to the market price of gold and does not intend to enter into material long-term gold forward sales contracts. However, the Company may enter into gold forward and/or gold and foreign currency option contracts which could, 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 current accounting policy not to apply hedge accounting, the mark-to-market value of these contracts is recorded on the balance sheet. At December 31, 2009, the Company had no outstanding gold forward or foreign currency option contracts.

Commitments Table

The following table summarizes the Company's contractual obligations at December 31, 2009:

Payments due by period ($000)

Contractual Obligations	Total	Less than 1 year	2 – 3 years	4 – 5 years	More than 5 years
Escondida development [(1)]	35,000	20,000	15,000	-	-
Operating lease	1,210	242	484	484	-
Employee future benefits [(2)]	566	-	-	-	566
Asset retirement obligations	11,042	-	-	-	11,042
Property acquisition obligations	975	383	562	30	-
	48,793	**20,625**	**16,046**	**514**	**11,608**

[(1)] During the third quarter of 2009, the Company signed a contract with an international mining contractor to develop the Escondida zone of the Mulatos deposit. Total remaining expected costs associated with this contract are approximately $35 million over a two-year period.

[(2)] Certain termination benefits are provided to Mexican employees on involuntary termination at the end of the life of the mine, as mandated by Mexican Labor 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. Based on the current gold price and rates of production, royalty expense is expected to be in the range of $2.0 million to $3.0 million per quarter.

(All amounts are expressed in United States dollars, unless otherwise stated)

The Company has signed relocation contracts with certain property owners and possessors in the town 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 December 31, 2009 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:

	March 12, 2010
Common shares	
- Common shares outstanding	114,286,608
Stock options	
- Average exercise price CDN$8.27; approximately 66% vested and 70% in-the-money.	5,425,300
Total	**119,711,908**

Outlook

In 2009, the Company achieved new records with respect to gold production, costs, earnings and cash flows. Gold production of 178,500 ounces exceeded the top-end of the Company's production guidance and contributed to strong revenue and earnings growth of 29% and 90% respectively. Further, high gold prices and record low cash operating and total cash costs, resulted in the Company generating over $95.6 million in cash flow from operations during the year.

In 2010, the Company forecasts gold production of between 160,000 and 175,000 ounces at Mulatos at a total cash cost of $338 per ounce (including the 5% royalty). The budgeted total cash cost of $338 per ounce is based on a gold price assumption of $1,000 per ounce and a Mexican peso to United States dollar foreign exchange rate of 13.55:1. Increases in the gold price and strengthening in the value of the Mexican peso compared to the United States dollar will increase the Company's 2010 total cash costs.

The expected production range for 2010 reflects the uncertainty as to whether the Company will continue to benefit from positive block model reconciliations with respect to both grade and tonnes. Higher gold prices in 2009 compared to 2008 have resulted in previously uneconomic material classified as waste being converted to mineable ore. This generally has the effect of increasing mine life while reducing average gold grades, and has resulted in the slight decrease in planned gold production for 2010 compared to actual production in 2009. However, ongoing projects have the potential to increase gold production through improved recoveries and increased throughput rates.

The project to close the existing crushing circuit to ensure that 100% of the material stacked on the leach pad meets the optimal size for gold recovery was completed in November 2009. Additional recovery benefits from this project are expected to be realized in the first half of 2010.

In addition, a draft scoping study was completed in the fourth quarter evaluating the potential capital costs and related benefits of increasing crusher throughput up to 33% from the current level of approximately 750 tonnes per hour to up to 1,000 tonnes per hour. The Company is in the final stage of engineering the first phase of this project, and expects to announce the projected benefits and capital costs in March 2010.

Ongoing expansion activities at current operations include the development of the Escondida zone of the Mulatos Pit. The mining contractor is on schedule and production from the high grade mill is expected in late 2011.

Exploration activities at Mulatos in 2010 will include continued step out and infill drilling at San Carlos and the Puerto del Aire extension, and first phase drilling at El Carricito.

The Company completed the acquisition of the Aği Daği and Kirazli advanced gold exploration projects in northwestern Turkey in January 2010. These projects have the potential to significantly increase the Company's resource base and future production profile. The Company has rapidly established its operations in Turkey, and drilling is expected to commence in March 2010. A scoping study is expected to be announced in the first quarter of 2010. The timing of a pre-feasibility study will follow shortly thereafter, providing further details on the Company's plans with respect to mine construction and development. While the Company expects that the acquisition of Aği Daği and Kirazli will significantly improve the Company's growth profile, the Company continues to pursue additional accretive acquisition opportunities.

The Company continues to strengthen its financial position: debt-free with approximately $147.0 million in cash and short-term investments at March 12, 2010 and strong cash flows from operations. This financial strength will continue to allow the Company to finance its immediate capital, development and exploration plans, as well as provide significant funding for development of additional projects through acquisitions.

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.

The Company accounts for its in-process precious metals inventory using a process flow for applicable costs appropriate to the physical transformation of ore through the mining, crushing, leaching and gold recovery process. The Company is required to estimate the ultimate recovery of payable metals from laboratory tests and from ongoing analysis of leach pad kinetics in order to determine the recoverable metals from the leach pad at the end of each accounting period. If the Company determines at any time that the ultimate recovery should be adjusted downward, then the Company will adjust the average carrying value of a unit of metal content in the in-process inventory and adjust upward on a prospective basis the unit cost of subsequent production. Should an upward adjustment in the average carrying value of a unit of metal result in the carrying value exceeding the realizable value of the metal, the Company would write down the carrying value to the realizable value.

The Company is required to determine the expected value of the estimated costs of asset retirement obligations and to recognize this value as a liability when reasonably determinable. This valuation is added to the cost of the relevant mineral property on the consolidated balance sheets, and amortized as an expense in the consolidated statements of operations when the mineral property is in production. Asset retirement costs include future removal and site restoration. Key assumptions in determining the amount of the liability are total undiscounted cash outflows, expected timing of payment of the cash outflows and appropriate inflation and discount rates to apply to the timing of cash outflows. Because the liability is recorded on a discounted basis, it is increased due to the passage of time with an offsetting charge to accretion expense in the statement of operations. The Company calculated its estimated mine site closure costs based on a mine closure and reclamation plan prepared by management and reviewed by an independent third party. The majority of the expenditures associated with reclamation and mine closure will be incurred at the end of the mine life, expected to be in 10 years based on expected proven and probable reserves and the current rate of production.

The Company estimates an employee future benefits liability associated with expected future payments to its Mexican employees in accordance with the statutory laws and regulations in Mexico that govern severance and termination benefits. Such estimates are necessarily calculated with reference to expected salary increase and minimum wage rates, employee turnover, interest and inflation rates and various other factors, all of which are subject to annual review and change.

The Company follows accounting guidelines in determining the fair value of stock-based compensation, as disclosed in Note 13 to the financial statements. This computed amount is not based on historical cost, but is derived based on subjective assumptions input into an option pricing model. The model requires that management make several assumptions as to future events, including: an estimate of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

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 following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry which may have a material impact on, or constitute risk factors in respect of the Company's future financial performance.

Industry

The Company is engaged in exploration, mine development and the mining and production of precious metals, primarily gold, and is exposed to a number of risks and uncertainties that are common to other companies in the same business. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable adequate machinery, equipment or labour are risks involved in the operation of mines and the conduct of exploration programs. The Company has relied on and may continue to rely upon consultants and others for mine operating and exploration expertise. Few properties that are explored are ultimately developed into producing mines. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineral deposit, the Company may not be able to raise sufficient funds for development. The economics of developing mineral properties are affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of mining and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Where expenditures on a property have not led to the discovery of mineral reserves, spent costs will not usually be recoverable.

Commodity Price

The value of the Company’s mineral resources and future operating profit and loss is affected by fluctuations in gold prices, over which the Company has no control. A reduction in the price of gold may prevent the Company’s properties from being economically mined or result in the write-off of assets whose value is impaired as a result of low gold prices. The price of gold may also have a significant influence on the market price of the Company's common shares. The price of gold is affected by numerous factors beyond the Company's control, such as the level of inflation, fluctuation of the United States dollar and foreign currencies, global and regional demand, sale of gold by central banks and the political and economic conditions of major gold producing countries throughout the world. The price of gold has increased significantly in the past several years. The current gold price is significantly above impairment levels. The Company has elected not to engage in significant forward selling, as a number of gold mining companies have been adversely affected by maintaining a substantial forward sales book in the face of a rising gold market. At the current rate of production, revenue will change by approximately $160,000 with each $1 change in the price of gold.

Currency

The Company is subject to currency risks. The Company’s functional currency is the United States dollar, which is subject to recent fluctuations against other currencies. The Company’s primary operations are located in Mexico and many of its expenditures and obligations are denominated in Mexican pesos. In addition, the Company has exploration and development activities ongoing in Turkey where the majority of its expenditures and obligations are in Turkish lira or Euros. The Company’s head office is in Canada where it maintains cash accounts in United States and Canadian dollars. As a result, the Company has monetary assets and liabilities and expenditures in United States dollars, Canadian dollars, Mexican pesos, Turkish lira and Euros. The Company's results of operations are subject to foreign currency fluctuation risks and such fluctuations may adversely affect the financial position and operating results of the Company. The Company has not undertaken to mitigate transactional volatility in either the Mexican peso or the Canadian dollar at this time. A 1% change in the relative value of the Canadian dollar would impact corporate and administrative costs by approximately $60,000 annually; a 1% change in the relative value of the Mexican peso would impact operating costs by approximately $250,000 annually. A significant strengthening in the value of the Turkish lira compared to the United States dollar could adversely impact the economics associated with the Company's development-stage assets in Turkey.

Business

The Company has limited financial resources which could affect its ability to carry out its business plan. The Company's ability to secure fixed gold prices or future foreign exchange rates is affected by its creditworthiness. Because of its limited operating record, it may not be able to hedge future risk to the extent it feels is appropriate. The Company's ability to obtain financing to explore for mineral deposits and to continue and complete the development of those properties it has classified as assets is not assured, nor is there assurance that the expenditure of funds will result in the discovery of an economic mineral deposit.

Competitive

The Company's business is intensely competitive, and the Company competes with other mining companies, many of which have greater resources and experience. Competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and produced economically; the technical expertise to find, develop, and produce such properties; the labour to operate the properties; and the capital for the purpose of financing development of such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a world-wide basis and some of these companies have much greater financial and technical resources than the Company. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties. The Company's inability to compete with other mining companies for these mineral deposits could have a material adverse effect on the Company's results of operations and business.

Country

The Company conducts exploration, mine development and mining and production activities in Sonora, Mexico. Mexico is a developing country and obtaining financing, finding or hiring qualified people or obtaining all necessary services for the Company's operations in Mexico may be difficult. Mexico's status as a developing country may make it more difficult for the Company to attract investors or obtain any required financing for its mining projects.

The Company recently acquired development-stage assets in Turkey and is subject to risks associated with conducting exploration activities and planning mine development activities in Turkey, including risks with respect to staffing, financing, obtaining the required goods and services, permitting, community relations and environmental risks.

The Company strives to maintain good relations with the local communities in which it operates by providing employment opportunities and social services. The Company has entered into a surface agreement with the Mulatos Ejido. In addition, the Company has entered into agreements with individual Ejido members for the surface rights to which they have been assigned. The transfers of title to these surface rights have been registered under Mexican law.

The Company is also in negotiations with Ejido and non-Ejido members, as a group and individually, to relocate the existing community of Mulatos, and to acquire additional surface rights. Negotiations with the Ejido can become time-consuming if demands for compensation become unreasonable. With the assistance of experienced legal advisors and the input from state and local government officials, the Company expects that it will be able to acquire its land-use requirements at a reasonable cost, however, there can be no assurance that this will be the case.

The acquisition of the right to exploit mineral properties is a detailed and time-consuming process. Although the Company is satisfied it has taken reasonable measures to acquire unencumbered rights to explore on and exploit its mineral reserves on the Salamandra group of concessions, no assurance can be given that such claims are not subject to prior unregistered agreements or interests or to undetected or other claims or interests which could be material and adverse to the Company.

Mexico recently enacted new tax laws which provide an additional layer of complexity and uncertainty in evaluating the financial benefit from current and future operations.

Environmental

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Specifically, the Company activities related to its Salamandra Concessions are subject to regulation by SEMARNAP, the environmental protection agency of Mexico. Regulations require that an environmental impact statement, known in Mexico as a *Manifesto Impacto Ambiental*, be prepared by a third-party contractor for submittal to SEMARNAP. Studies required to support the *Manifesto Impacto Ambiental* include a detailed analysis of the following areas: soil, water, vegetation, wildlife, cultural resources and socio-economic impacts. The Company must also provide proof of local community support for a project to gain final *Manifesto Impacto Ambiental* approval. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

Regulatory

The Company's activities are subject to extensive laws and regulations governing worker health and safety, employment standards, waste disposal, protection of historic and archaeological sites, mine development, protection of endangered and protected species and other matters in both Mexico and Turkey. Specifically, the Company's activities related to its Mulatos Mine and the Salamandra group of concessions are subject to regulation by SEMARNAP, the environmental protection agency of Mexico, *Comisión Nacional del Aqua* ("CAN"), which regulates water rights, and the Mexican Mining Law. Mexican regulators have broad authority to shut down and/or levy fines against facilities that do not comply with regulations or standards. The Company' mineral exploration and mining activities in Mexico may be adversely affected in varying degrees by changing government regulations relating to the mining industry or shifts in political conditions that increase the costs related to the Company activities or maintaining its properties. Operations may also be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety.

A number of other approvals, licenses and permits are required for various aspects of mine development. While the Company has used its best efforts to ensure title to all its properties and secured access to surface rights, these titles or rights may be disputed, which could result in costly litigation or disruption of operations. The Company is uncertain if all necessary permits will be maintained on acceptable terms or in a timely manner. Future changes in applicable laws and regulations or changes in their enforcement or regulatory interpretation could negatively impact current or planned exploration and development activities within the Company's Salamandra group of concessions or any other projects with which the Company becomes involved. Any failure to comply with applicable laws and regulations or failure to obtain or maintain permits, even if inadvertent, could result in the interruption of exploration and development operations or material fines, penalties or other liabilities.

Estimates

The mineral reserves and resource estimates of the Company are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified reserve or resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The Company relies on laboratory-based recovery models to project estimated ultimate recoveries by ore type at optimal crush sizes. Actual gold recoveries in a commercial heap leach operation may exceed or fall short of projected laboratory test results. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geologic, metallurgical or engineering work, and work interruptions, among others. Short term factors, such as the need for orderly development of deposits or the processing of new or different grades or ore types, may have an adverse effect on mining operations or the results of operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in proven and probable reserves or resources, grades, waste-to-ore ratios or recovery rates may affect the economic viability of projects. The estimated proven and probable reserves and resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations. Based on the expected 2010 rate of production and budgeted cash operating costs, a 1% change in the expected rate of recovery of gold would result in a $4 per ounce change in cash operating costs, and an approximate $2,300,000 change in income and cash flow annually, before royalties and income taxes. A 1% change in cash cost per tonne of ore would result in a $3 per ounce change in cash cost, and approximately $500,000 change in income and cash flow annually, before royalties and tax charges.

Dependence on Management

The Company is dependent on key personnel and the absence of any of these individuals could result in a significantly negative effect on the Company. The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term. As the Company's operations expand, additional general management resources will be required, especially since the Company encounters risks that are inherent in doing business in several countries. The Company is dependent, in particular, on its Chief Executive Officer, John McCluskey and its Chief Operating Officer, Manley Guarducci. Key man life insurance is not in place on Messrs. McCluskey or Guarducci. If the services of the Company's management and key personnel were lost, it could have a material adverse effect on future operations.

Legal

Substantially all of the Company's assets are located outside of Canada, and are held indirectly through foreign affiliates. It may be difficult or impossible to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of the securities laws of certain provinces against the portion of the Company's assets located outside of Canada.

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; potential expansion costs; 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. Exploration results that include geophysics, sampling and drill results on wide spacings may not be indicative of the occurrence of a mineral deposit. Such results do not provide assurance that further work will establish sufficient grade, continuity, metallurgical characteristics and economic potential to be classed as a category of mineral resource. 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.

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.