

## **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, 2010 compared with the three and nine-month periods ended September 30, 2009. 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 2, 2010 and should be read in conjunction with the Company's Annual Information Form and other corporate filings available at [www.sedar.com](http://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"). Refer to Note 2 of the December 31, 2009 and 2008 audited consolidated financial statements for disclosure of the Company's significant accounting policies.

### **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 and operates the Mulatos mine (“Mulatos” or the “Mine”) within the Salamandra group of concessions located in the state of Sonora in northwest Mexico. In addition, the Company owns the Ağı Dağı and Kirazlı advanced-stage gold development projects, located in the Biga Peninsula of northwestern Turkey.

### Mexico

The Salamandra group of concessions comprises 30,325 hectares, and contains the producing Mine as well as several advanced and grassroots exploration projects. The Mine achieved commercial production in 2006 and produces gold in dore form for shipment to a refinery. Exploration potential includes both mineralized extensions and satellite deposits in close proximity to existing mining operations.

Proven and probable reserves as at December 31, 2009 were 61.6 million tonnes grading 1.21 grams of gold per tonne of ore (“g/t Au”) for approximately 2.4 million contained ounces of gold, providing a mine life of over 11 years at current production levels.

### Turkey

In early 2010, the Company acquired the 10,861-hectare Ağı Dağı and Kirazlı gold development projects, which contain established mineral resources and several highly prospective exploration targets. In March 2010, the Company published a preliminary economic assessment technical report (the “Scoping Study”) evaluating the potential economics of developing Ağı Dağı and Kirazlı into gold mines.

The findings of the Scoping Study were positive and the Company is advancing the projects to the preliminary feasibility stage. The Scoping Study also presented an updated mineral resource estimate. Indicated resources at December 31, 2009 were 63.8 million tonnes grading 0.64 g/t Au and 5.20 grams of silver per tonne of ore (“g/t Ag”) for approximately 1.3 million ounces of gold and 10.7 million ounces of silver. Inferred resources were 26.4 million tonnes grading 0.74 g/t Au and 8.72 g/t Ag for 0.6 million ounces of gold and 7.4 million ounces of silver.

## Third Quarter 2010 Highlights

In the third quarter of 2010, the Company:

- Generated revenues of \$34.3 million from the sale of 28,000 ounces at an average realized price of \$1,226 per ounce.
- Recognized earnings of \$19.5 million (\$0.17 per basic share) compared to earnings of \$14.1 million (\$0.13 per share) in the same period of 2009.
- Produced 30,200 ounces of gold at a cash operating cost of \$312 per ounce of gold sold (total cash cost inclusive of royalties of \$372 per ounce of gold sold).
- Generated cash flows from operating activities of \$11.2 million (\$0.10 per basic share) compared to \$22.3 million (\$0.21 per basic share) in the third quarter of 2009.
- Reported a \$12.5 million (\$0.11 per basic share) gain on completion of a settlement agreement with Primero Mining Corporation (“Primero Mining”).

- Announced a 17% increase in the Company's semi-annual dividend to \$0.035 per share.
- Negotiated surface access agreements at the high-priority El Carricito exploration target and announced the start of a 10,000-metre drill program.
- Continued drilling to support engineering and development of the Ağı Dağı and Kirazlı projects in Turkey.

Subsequent to quarter end, the Company:

- Completed construction of the new expanded leach pad ("North Mulatos Heap") and commenced stacking in early November 2010.
- Commissioned the new screening plant designed to increase crusher throughput by between 13% and 20%.
- Produced 18,000 ounces of gold in October 2010.
- Commenced a 2,500 metre drill program at the Company's high-potential Çamyurt project in Turkey.

## Results of Operations

Gold production of 30,200 ounces in the third quarter of 2010 decreased 29% compared to gold production of 42,500 ounces in the third quarter of 2009. Gold sales in the third quarter of 2010 decreased 35% over the comparable period of 2009 to 28,000 ounces. The table below outlines key production indicators for the third quarters of 2010 and 2009:

| Production summary                                   | Q3<br>2010 | Q3<br>2009 | YTD<br>2010 | YTD<br>2009 |
|------------------------------------------------------|------------|------------|-------------|-------------|
| Ounces produced <sup>(1)</sup>                       | 30,200     | 42,500     | 110,200     | 130,500     |
| Ore crushed (tonnes)                                 | 1,112,000  | 1,119,000  | 3,504,000   | 3,259,000   |
| Grade (g/t Au)                                       | 1.63       | 1.68       | 1.68        | 1.77        |
| Contained ounces stacked                             | 58,381     | 60,439     | 189,093     | 185,455     |
| Ratio of ounces produced to contained ounces stacked | 52%        | 70%        | 58%         | 70%         |
| Ore mined (tonnes)                                   | 1,120,000  | 1,155,000  | 3,518,000   | 3,228,000   |
| Waste mined (tonnes)                                 | 1,090,000  | 751,000    | 2,950,000   | 3,364,000   |
| Total mined (tonnes)                                 | 2,210,000  | 1,906,000  | 6,468,000   | 6,592,000   |
| Waste-to-ore ratio                                   | 0.97       | 0.65       | 0.84        | 1.04        |
| Ore crushed per day (tonnes)                         | 12,100     | 12,200     | 12,800      | 11,900      |

<sup>(1)</sup> Reported gold production for Q3 and YTD 2009 has been adjusted to reflect final refinery settlement. Reported gold production for Q3 and YTD 2010 is subject to final refinery settlement and may be adjusted.

In the third quarter of 2010, the Mulatos mine produced 30,200 ounces of gold at a cash operating cost of \$312 per ounce; including the 5% royalty, total cash costs were \$372 per ounce. Gold production in the third quarter of 2010 was approximately 21% below production in the second quarter of 2010 and 29% lower than production in the third quarter of 2009. Lower than expected gold production in the third quarter was primarily attributable to an

unusually long and severe rainy season, as well as delays in solution percolation caused by higher leach pad heap height and finer crushing of ore. Monthly production averaged only 8,000 ounces in each each of July and August, increasing to 14,200 ounces in September. In October 2010, gold production was 18,000 ounces, confirming the Company's expectation that lower gold production in the third quarter will be recovered in the fourth quarter of the year. Accordingly, the Company is expecting significantly higher gold production in the fourth quarter and expects to achieve annual production in line with its annual guidance of 160,000 to 175,000 ounces.

Crusher throughput and the grade of ore mined in the third quarter of 2010 were consistent with budgeted levels and with the same period of 2009, while lower gold production resulted in a lower than budgeted "recovery ratio" for the period. The recovery ratio is defined as the ratio of gold ounces produced divided by the number of contained ounces stacked over a specific period. The Company expects the recovery ratio to increase significantly in the fourth quarter of 2010 as gold production is derived from ore stacked on higher lifts of the South Mulatos Heap in the second and third quarters, as well as from ore stacked on the first lift at the new expanded North Mulatos Heap.

In early October, the Company installed and commissioned the new screening plant. The additional screening capacity is expected to result in a 13% to 20% increase in crusher throughput, which is expected to benefit gold production in the fourth quarter and beyond. Crusher throughput for the last week of October averaged in excess of 15,500 tonnes per day, compared to an average of 12,100 in the third quarter of 2010.

The grade of ore stacked in the third quarter of 2010 was 1.63 g/t Au, consistent with the grade of ore stacked in the comparable period of 2009. The reconciliation of mined blocks to the block model in the third quarter was +8%, -8% and 0% for tonnes, grade and ounces respectively. Since the start of mining activities in 2005, the project-to-date reconciliation is -1%, +9%, +7% 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, which generally has the effect of extending mine life and lowering mining costs. While the Company has benefited from positive grade and tonnes reconciliations in the past, this may not be indicative of future results.

The following table compares costs per tonne for the three-month and nine-month periods ended September 30, 2010 and 2009:

| Costs per tonne summary                              | Q3<br>2010 | Q3<br>2009 | YTD<br>2010 | YTD<br>2009 |
|------------------------------------------------------|------------|------------|-------------|-------------|
| Mining cost per tonne of material<br>(ore and waste) | \$1.89     | \$2.15     | \$1.97      | \$1.81      |
| Waste-to-ore ratio                                   | 0.97       | 0.65       | 0.84        | 1.04        |
| Mining cost per tonne of ore                         | \$3.74     | \$3.54     | \$3.63      | \$3.70      |
| Crushing/conveying cost per tonne of ore             | \$2.26     | \$1.66     | \$2.11      | \$1.70      |
| Processing cost per tonne of ore                     | \$3.61     | \$2.62     | \$2.75      | \$2.54      |
| Mine administration cost per tonne of ore            | \$2.05     | \$1.88     | \$1.98      | \$1.70      |
| Total cost per tonne of ore                          | \$11.66    | \$9.70     | \$10.47     | \$9.64      |

Total cost per tonne of ore in the third quarter of 2010 of \$11.66 increased 20% compared to \$9.70 in the third quarter of 2009. The higher cost per tonne of ore in the third quarter and year-to-date 2010 is primarily attributable to higher crushing and conveying costs associated with the additional closed circuit crushing system that was implemented in the first quarter of 2010, as well as higher processing costs due to increased reagent consumption. In addition, higher diesel costs and a strengthening in value of the Mexican peso compared to the United States dollar resulted in generally higher costs in all departments.

Mining cost per tonne of material was \$1.89 in the third quarter of 2010, approximately 12% lower than the third quarter of 2009, reflecting a 16% increase in the total tonnes of material mined. On a year-to-date basis, mining cost per tonne of material of \$1.97 increased 9% compared to the same period of 2009. The higher mining cost per tonne of material in 2010 reflects the relative strength of the Mexican peso as well as increased diesel costs.

Crushing and conveying costs per tonne were significantly higher in the third quarter and year-to-date in 2010 than in the same periods of 2009. In late 2009, the Company commissioned the closed circuit, designed to improve the size consistency of stacked ore. Incremental power and maintenance costs associated with this project are the primary reason for higher crushing and conveying costs. The higher costs associated with finer crushing ore are expected to be recovered from increased gold production.

Processing costs in the third quarter of 2010 of \$3.61 were 38% or \$0.99 higher than in the third quarter of 2009. The significant increase in processing costs relates to higher reagent consumption required in order to maintain solution concentration during the heavier than normal rainfalls experienced in the third quarter as well as due to stacking on higher lifts of the leach pad.

Administration costs increased in the third quarter of 2010 compared to the same period of 2009 due to increased headcount and costs associated with camp and security contractors.

Cash operating costs of \$312 per ounce of gold sold in the third quarter of 2010 were 15% higher than \$272 reported for the third quarter of 2009. On a year-to-date basis, cash operating costs of \$284 per ounce in 2010 were consistent with \$284 per ounce reported in the same period of 2009.

Cash operating costs include total costs incurred in the period, in addition to inventory adjustments that recognize the allocation of costs to and from the Company's in-process leach pad gold inventory in the period. 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                 | Q3<br>2010   | Q3<br>2009   |
|----------------------------------------------------|--------------|--------------|
| Total cost per tonne of ore                        | \$11.66      | \$9.70       |
| Ore crushed (tonnes)                               | 1,112,000    | 1,119,000    |
| Total cost                                         | \$12,965,920 | \$10,854,000 |
| Inventory adjustments to reflect additional ounces |              |              |

|                                                                                      |               |              |
|--------------------------------------------------------------------------------------|---------------|--------------|
| produced from (allocated to) leach pad inventory and other period costs              | (\$4,233,920) | \$913,000    |
| Mining and processing costs allocated to ounces sold as reported on income statement | \$8,732,000   | \$11,767,000 |
| Ounces sold                                                                          | 28,000        | 43,201       |
| Cash operating cost per ounce sold                                                   | \$312         | \$272        |

In the third quarter of 2010, the Company added ounces to its leach pad inventory as the number of recoverable ounces stacked exceeded the number of ounces produced in the period. Since the start of 2010, the leach pad inventory, which incorporates both cash operating costs and amortization, increased from \$7.2 million at December 31, 2009 to \$13.3 million at third-quarter end, reflecting an ultimate recovery assumption applied to ore stacked in the quarter that was higher than the “recovery ratio” for the period.

### Investments in Mineral Property, Plant and Equipment and Acquisitions

A summary of the cash invested in operating capital and development activities for the nine-months ended September 30, 2010 is presented below:

|                                                                                | Q3<br>2010<br>(\$000) | YTD<br>2010<br>(\$000) |
|--------------------------------------------------------------------------------|-----------------------|------------------------|
| <b>Operating capital – Mexico</b>                                              |                       |                        |
| Leach pad expansion                                                            | 2,539                 | 7,718                  |
| Crusher – screening plant                                                      | 4,607                 | 4,873                  |
| Construction                                                                   | 1,012                 | 4,090                  |
| Component changes                                                              | 150                   | 831                    |
| Mobile equipment                                                               | 38                    | 980                    |
| Pit design and slope stability                                                 | 63                    | 485                    |
| Other                                                                          | 842                   | 2,425                  |
|                                                                                | 9,251                 | 21,402                 |
| <b>Development – Mexico</b>                                                    |                       |                        |
| Escondida development                                                          | 4,500                 | 13,712                 |
| Mulatos relocation                                                             | 166                   | 353                    |
|                                                                                | 4,666                 | 14,065                 |
| <b>Development – Turkey</b>                                                    |                       |                        |
| Acquisition of Ağı Dağı and Kirazlı                                            | -                     | 40,180                 |
| Development and capitalized exploration                                        | 1,915                 | 5,613                  |
|                                                                                | 1,915                 | 45,793                 |
| <b>Cash invested in mineral property, plant and equipment and acquisitions</b> | <b>15,832</b>         | <b>81,260</b>          |

#### Operating Capital – Mexico

Capital spending in the third quarter of 2010 was focused on completing the screening plant project to increase crusher throughput (\$4.6 million) and leach pad expansion (\$2.5 million).

In March 2010, the Company provided its mineral reserve and resource update as at December 31, 2009 and announced a planned increase in crusher throughput of between 13% and 20% through the addition of a screen between the secondary and tertiary crushers at an expected capital cost of approximately \$6.5 million. The project was initially expected to be

completed early in the fourth quarter of 2010. The Company installed and commissioned the new screening plant effective October 1, 2010 and expects the total capital cost to be at or below the budget of \$6.5 million.

Construction of the expanded leach pad project commenced in early 2010 and was completed in late October. Stacking on the first lift of the new expanded North Mulatos Heap commenced in early November. Production from the North Mulatos Heap will coincide with production derived from ore stacked on higher lifts in the third quarter of 2010, and as a result, is expected to significantly increase gold production levels in the fourth quarter of 2010.

Construction spending in the third quarter included \$0.7 million for the water treatment plant and \$0.3 million completing construction of a new office complex in Hermosillo.

#### Development – Mexico

The Company invested \$4.5 million in development activities at Escondida during the third quarter of 2010. As at September 30, 2010, the mining contractor had removed approximately 9.6 million tonnes of overburden since the project commenced, or approximately 30% of the total required. In April 2010, life-of-mine planning based on the Company's updated reserve and resource update indicated that an additional one million tonnes of ore and four million tonnes of waste are required to be mined in order to access the Escondida high grade zone. The Company has evaluated the impact of this additional development work on the timeline, and expects that development of Escondida will now be complete in the first quarter of 2012.

Construction of the mill to process high-grade ore from the Escondida zone as well as from other potential high-grade zones is planned to start in the first quarter of 2011 and is expected to be complete by the end of 2011 at an estimated cost of \$17.5 million, which includes a 20% contingency.

#### Development – Turkey

On January 6, 2010, the Company acquired the Ağı Dağı and Kirazlı advanced-stage gold projects located on the Biga Peninsula of northwestern Turkey. Ağı Dağı is located approximately 50 kilometres southeast of Çanakkale and Kirazlı is located approximately 25 kilometres northwest of Ağı Dağı. Çanakkale is the largest centre on the Biga Peninsula with a population of approximately 97,000. Infrastructure in close proximity to the project is excellent and well-serviced with paved roads, transmission lines, and electricity generating facilities, the most significant being a large coal-fired power plant adjacent to the nearby Town of Çan, which has a population of approximately 30,000.

Positive results from the Scoping Study published in the first quarter of 2010 have resulted in the decision to advance the project to the preliminary feasibility stage. On completion of a positive preliminary feasibility study, and assuming timely approval of the environmental impact assessment report and receipt of all required mining permits, production is planned to commence at Kirazlı in the first quarter of 2013, followed by Ağı Dağı in the first quarter of 2014.

In the third quarter of 2010, the Company invested \$1.9 million at the Ağı Dağı and Kirazlı projects. Spending in the third quarter was focused on exploration, preliminary engineering studies and permitting work to support the pre-feasibility study. The Company had up to six drill rigs operating during the quarter to provide metallurgical and geotechnical data to support

the pre-feasibility study at a cost of \$0.8 million. In addition, consultant costs related to the pre-feasibility study totaled \$0.5 million, while capital purchases, salaries and other costs comprised \$0.6 million.

## Exploration Summary

Total exploration spending in the third quarter of 2010 was \$2.6 million. Exploration activities in Mexico of \$1.8 million were expensed, while \$0.8 million of exploration costs supporting development of Ağrı Dağı and Kirazlı were capitalized.

### Exploration – Mexico

The Company had up to four drills operating during the third quarter, drilling a total of 5,000 metres in 20 holes. Exploration activities focused on the following areas:

| Zone                      | Location                                    | Stage                               |
|---------------------------|---------------------------------------------|-------------------------------------|
| El Carricito              | 20 kilometres southwest of the Mulatos Pit  | Exploration                         |
| 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*

In the third quarter of 2010, the Company entered into surface right access agreements that encompass the majority of the El Carricito exploration project. El Carricito is the largest area of favorable silicic and advanced argillic alteration in the Mulatos District. This zone of alteration, which has never been drill-tested, is approximately 5.5 kilometres long, up to 2.7 kilometres wide, and is up to 300 metres thick in outcrop.

Drilling equipment was mobilized to site in late September and drilling commenced at the end of the third quarter with a planned first phase drill program consisting of 10,000 metres of reverse-circulation and core drilling. Drilling is ongoing with one reverse-circulation drill; however, additional drills will be added as required infrastructure is developed. A total of six holes have been completed to-date and assay results are pending. El Carricito is the most prospective grassroots exploration target in the Company's Mexican portfolio.

#### *Puerto del Aire ("PdA") Extension*

The Company invested \$0.8 million drilling at the PdA Extension in the third quarter of 2010, focused on continuing to expand the zone to the northeast. The PdA trend had been determined to extend for more than two kilometres from the Mulatos Pit to beyond the Mulatos River. Drilling in the third quarter delineated a zone that is adjacent to the Mulatos River, open to the west and that appears to continue east of the Mulatos River. East of the Mulatos River, the zone is coincident with a geochemical anomaly identified earlier in 2010 that is expected to extend the mineralized trend up to three kilometres in length.

Mafic dyke swarms encountered at San Carlos and interpreted to be spatially related to high-grade gold mineralization are abundant along the PdA Extension trend. Drill testing of this area will continue in the fourth quarter of 2010 and into 2011.

Although this area is highly prospective, the identified mineralized zones at PdA and PdA Extension may not have metallurgical characteristics amenable to heap leaching, or portions may be located at depths which could preclude open pit mining.

### *San Carlos*

Exploration spending at San Carlos was limited to \$0.3 million in the third quarter as planned given the onset of the rainy season in early July. Geological modelling was completed during the third quarter in anticipation of resource modeling in the fourth quarter. Subject to the completion of required engineering studies, the Company expects to be able to incorporate mineral reserves from San Carlos for the first time in its 2010 annual mineral resource and reserve statement.

At San Carlos, the Company has identified a mineralized envelope defined by the distribution of silica alteration that is both stratabound and structurally-controlled in nature and extends for at least 400 metres along strike from the Mulatos River. Several holes contained high-grade intercepts, such as hole 10SC120, which intercepted 29.0 metres grading 15.02 g/t Au. This zone is up to 300 metres wide, and upwards of 100 metres thick, and contains a high-grade portion with a strike length of approximately 270 metres. During the quarter, results of infill drill hole 10SC124 indicated the highest grade-width intercept ever reported at San Carlos with 26.0 metres grading 18.40 g/t Au (all assays un-cut), further demonstrating the continuity and robustness of the zone.

The San Carlos zone remains open towards the east-northeast and a drill program aimed at further extending and exploring the known mineralized zones is expected to resume in the fourth quarter of 2010.

### Exploration – Turkey

Exploration activities in the third quarter of 2010 at the Ağrı Dağı and Kirazlı projects focused on collecting metallurgical, geotechnical and geological data to support the preliminary feasibility study. Exploration activities have progressed well, with six drill rigs active on site.

### *Ağrı Dağı*

The Company has drilled approximately 15,200 m in 91 drill holes in the Baba and Deli deposits at Ağrı Dağı to-date in 2010. Drilling activities have recently shifted from metallurgical and geotechnical testing to infill drilling and drill-testing for mineralized extensions.

Drilling continues to confirm expected grades and thicknesses, while some holes are significantly exceeding expectations, with respect to grade, relative to the current block model.

Recent assay results from drill holes that are twins of existing holes drilled by other operators generally exceed historical results. The Company attributes this to improved core recovery as the increases in grade for twinned holes correlated to zones with improved core recovery. The Company's average core recovery to-date is in excess of 87%, while the average core recovery by previous operators was 71%.

Drilling at Ağı Dağı is ongoing and the Company will be providing an updated mineral resource estimate for the Deli and Baba deposits as part of its annual mineral reserve and resource update in the first quarter of 2011.

### *Çamyurt Zone*

The Çamyurt target is located about three kilometres southeast of the Baba deposit and is a separate zone of economic interest. The Company has recently received drill permits for its Çamyurt project and is currently establishing drill access roads and pads.

In late 2007, previous operators drilled five wide-spaced core holes at Çamyurt over a strike distance of approximately 700 metres. The drill holes all had poor core recovery and one was abandoned during drilling, however, results indicated that a potential discovery had been made. The Çamyurt zone remains open to the southwest, and there appears to be at least 800 metres of untested strike length in favourable rock types for hosting gold mineralization that outcrop at surface.

The Company's initial 2,500 m drill program commenced in early November with initial assay results expected to be available in the first quarter of 2011. The drill program is intended to test for strike-length extensions to known areas of gold mineralization. Çamyurt is the highest potential exploration target in the Company's Turkish portfolio.

### *Kirazlı Main Zone*

Drill permits for the Kirazlı project were received in late August 2010 and drilling commenced shortly thereafter. To-date, the Company has drilled over 1,765 m in 13 holes at Kirazlı and assay results are pending. The Company has completed all of the required metallurgical and geotechnical drilling necessary for the preliminary feasibility study and exploration efforts at Kirazlı are now focused on infill and extension drilling with three core rigs.

The Company will be providing an updated mineral resource estimate for the Kirazlı deposit as part of its annual mineral reserve and resource update in the first quarter of 2011.

### *Rock Pile Target*

Rock Pile is an exploration target located approximately one kilometre west of the main resource area at Kirazlı. Previous operators collected 71 surface rock samples with an average grade of 3.8 g/t Au over an area covering 400 metres by 100 metres. Within that group of samples, 50 of the samples were associated with silica alteration and returned values above 1 g/t Au. Previous operators also completed an inverse polarization ("IP") survey the identified zones that may contain favourable host rocks for gold mineralization.

The Company's exploration team has been conducting its own geological mapping and has identified several old workings coincident with soil and rock gold anomalies. Rock Pile is a grass roots exploration target that has never been drill-tested. Drilling is expected to commence in the second quarter of 2011.

## Financial Highlights

A summary of the Company's financial results for the three and nine-month periods ended September 30, 2010 and 2009 is presented below:

|                                                                                                       | Q3<br>2010  | Q3<br>2009  | YTD<br>2010              | YTD<br>2009              |
|-------------------------------------------------------------------------------------------------------|-------------|-------------|--------------------------|--------------------------|
| Cash provided by operating activities before changes in non-cash working capital (000) <sup>(1)</sup> | \$16,357    | \$20,882    | \$59,824                 | \$57,551                 |
| Changes in non-cash working capital (000)                                                             | (\$5,136)   | \$1,464     | (\$4,178)                | \$2,302                  |
| Cash provided by operating activities (000)                                                           | \$11,221    | \$22,346    | \$55,646                 | \$59,853                 |
| Earnings before income taxes (000)                                                                    | \$24,459    | \$19,389    | \$64,918                 | \$49,777                 |
| Earnings (000)                                                                                        | \$19,484    | \$14,115    | \$45,568                 | \$35,881                 |
| Earnings per share                                                                                    |             |             |                          |                          |
| - basic                                                                                               | \$0.17      | \$0.13      | \$0.40                   | \$0.34                   |
| - diluted                                                                                             | \$0.17      | \$0.13      | \$0.39                   | \$0.33                   |
| Comprehensive income (000)                                                                            | \$20,553    | \$14,212    | \$46,637                 | \$36,671                 |
| Weighted average number of common shares outstanding                                                  |             |             |                          |                          |
| - basic                                                                                               | 115,819,000 | 108,560,000 | 114,874,000              | 105,937,000              |
| - diluted                                                                                             | 117,328,000 | 110,229,000 | 116,594,000              | 107,904,000              |
| Assets <sup>(2)</sup>                                                                                 |             |             | \$500,717 <sup>(2)</sup> | \$360,282 <sup>(2)</sup> |

<sup>(1)</sup> 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.

<sup>(2)</sup> Assets are presented as at September 30, 2010 and December 31, 2009.

Financial results in the third quarter of 2010 were impacted by lower gold sales resulting from lower than budgeted gold production. Cash provided by operating activities of \$11.2 million (\$0.10 per share), decreased 50% from \$22.3 million (\$0.21 per share) in the third quarter of 2009.

Earnings in the third quarter of 2010 were \$19.5 million or \$0.17 per basic share, compared to \$14.1 million (\$0.13 per basic share) in the same period of 2009. Earnings in the third quarter of 2010 benefited from a \$12.5 million (\$0.11 per share) one-time gain on completion of a settlement agreement with Primero Mining.

Earnings for the nine months ended September 30, 2010 of \$45.6 million (\$0.40 per share) were 27% higher than earnings of \$35.9 million (\$0.34 per share) for the same period of 2009. The one-time gain on completion of the settlement agreement with Primero Mining coupled with higher realized gold prices to offset a 15% decline in the number of ounces sold, resulting in overall improved financial performance.

## Gold Sales

Details of gold sales are presented below:

|                                               | Q3<br>2010 | Q3<br>2009 | YTD<br>2010 | YTD<br>2009 |
|-----------------------------------------------|------------|------------|-------------|-------------|
| Gold sales (ounces)                           | 28,000     | 43,201     | 109,836     | 128,679     |
| Gold sales revenues (000)                     | \$34,336   | \$41,283   | \$128,481   | \$118,781   |
| Realized gold price per ounce                 | \$1,226    | \$956      | \$1,170     | \$923       |
| Average gold price for period (London PM Fix) | \$1,227    | \$960      | \$1,178     | \$931       |

Gold sales revenues in the third quarter of 2010 of \$34.3 million decreased 17% from revenues of \$41.3 million in the third quarter of 2009. The decrease in gold sales revenues is attributable to a 35% decrease in the number of ounces sold, offset by a 28% increase in the average realized gold price.

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. As at September 30, 2010, the Company did not have any significant derivative activity outstanding related to gold, and is therefore fully leveraged to future changes in the price of gold.

## Assessment of Gold Market

The Company's realized gold price in the third quarter of 2010 was \$1,226 per ounce, consistent with the average London PM Fix spot market price of \$1,227. The market price of gold continues to exhibit significant volatility. Subsequent to the end of the third quarter, the spot market gold price had increased to in excess of \$1,350 per ounce on November 2, 2010. At this gold price, the Company realizes a mine operating cash margin (before taxes and corporate and administrative costs) in excess of \$950 per ounce.

## Operating Expenses and Operating Margins

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

|                                                    | Q3<br>2010      | Q3<br>2009      | YTD<br>2010     | YTD<br>2009     |
|----------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Gold production (ounces) <sup>(1)</sup>            | 30,200          | 42,500          | 110,200         | 130,500         |
| Gold sales (ounces)                                | 28,000          | 43,201          | 109,836         | 128,679         |
| <b>Cash operating costs (000) <sup>(2)</sup></b>   | <b>\$8,732</b>  | <b>\$11,767</b> | <b>\$31,236</b> | <b>\$36,507</b> |
| - Per ounce sold                                   | <b>\$312</b>    | <b>\$272</b>    | <b>\$284</b>    | <b>\$284</b>    |
| Royalties (000) <sup>(3)</sup>                     | \$1,685         | \$1,815         | \$6,020         | \$5,946         |
| <b>Total cash costs (000) <sup>(4)</sup></b>       | <b>\$10,417</b> | <b>\$13,582</b> | <b>\$37,256</b> | <b>\$42,453</b> |
| - Per ounce sold                                   | <b>\$372</b>    | <b>\$314</b>    | <b>\$339</b>    | <b>\$330</b>    |
| Amortization (000)                                 | \$4,237         | \$5,368         | \$15,101        | \$16,157        |
| Accretion expense (000)                            | \$116           | \$88            | \$343           | \$256           |
| <b>Total production costs (000) <sup>(5)</sup></b> | <b>\$14,770</b> | <b>\$19,038</b> | <b>\$52,700</b> | <b>\$58,866</b> |
| - Per ounce sold                                   | <b>\$528</b>    | <b>\$441</b>    | <b>\$480</b>    | <b>\$457</b>    |

|                                                  |         |       |         |       |
|--------------------------------------------------|---------|-------|---------|-------|
| - Realized gold price per ounce                  | \$1,226 | \$956 | \$1,170 | \$923 |
| - Operating cash margin per ounce <sup>(6)</sup> | \$854   | \$642 | \$831   | \$593 |

- (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.

Cash operating costs for the quarter were \$312 per ounce of gold, 15% higher than the comparable quarter of 2009. Higher processing and crushing costs and comparative strength in the value of the Mexican peso compared to the United States dollar resulted in increased costs. Amortization was \$151 per ounce of gold sold in the third quarter of 2010, 22% higher than \$124 per ounce in the same period of 2009. Amortization per ounce increased significantly in the third quarter of 2010 compared to the first half of the year. Approximately 25% of the Company's fixed assets are amortized on a straight-line basis. As a result, amortization expense per ounce was higher in the third quarter, given that straight-line amortization is fixed and charged to a lesser number of ounces.

Production from certain mining concessions within the Salamandra District is subject to a sliding scale production royalty. At 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 September 30, 2010, the royalty was paid or accrued on approximately 611,000 ounces of applicable gold production. Royalty expense in the third quarter of 2010 was \$1.7 million, slightly below the \$1.8 million royalty expense in the same period of 2009. The lower royalty expense is attributable to lower gold production applicable to royalty, offset by a higher average market gold price in the third quarter of 2010 compared to 2009.

## 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 the third quarter of 2010 were \$2.6 million, of which \$1.8 million was expensed and \$0.8 million related to Turkey was capitalized. Comparatively, in the third quarter of 2009 a total of \$2.4 million was spent on exploration activities in Mexico, of which \$1.8 million was expensed.

## Corporate and Administrative

Corporate and administrative expenses of \$1.8 million in the third quarter of 2010 were approximately 47% higher than the \$1.2 million incurred in 2009. Higher corporate and administrative costs were primarily the result of higher salary costs associated with new employees in the Toronto head office, increased travel requirements as well as the inclusion of costs associated with the Company's new administration office in Ankara, Turkey.

## Stock-based Compensation

Stock-based compensation expense in the three-month period ended September 30, 2010 was \$3.3 million compared to \$1.2 million in the comparable period of 2009. 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 the third quarter of 2010 was higher than in the third quarter of 2009 as a result of higher amortization costs associated with grants in prior quarters.

## Accretion

Accretion expense includes accretion of the Company's asset retirement and property acquisition obligation liabilities. The accretion expense for the current period increased marginally compared to the prior year period.

## Employee Future Benefits

The Company is required to recognize employee future benefit liabilities associated with its Mexican work force. The related expense for the current period was lower than the prior year period due to an increase in the mine life and changes in other actuarial assumptions applied to calculate the employee future benefits liability.

## Interest Income

Interest income in the third quarter of 2010 was \$0.5 million compared to interest income earned in the third quarter of 2009 of \$0.2 million. Interest rates on deposit accounts and short-term investments remain at historically low levels.

## Foreign Exchange Gain

The Company recognized a foreign exchange loss of \$1.3 million in the third quarter of 2010 compared to a foreign exchange gain of \$1.2 million in same period of 2009. Throughout the third quarter of 2010, the value of the Mexican peso, Canadian dollar and Turkish Lira all strengthened compared to the United States dollar. Most significantly, the Turkish Lira strengthened 9% between the end of the second quarter and the end of the third quarter of

2010. As a result, a foreign exchange loss of \$1.3 million was recognized on revaluation of the Company's Turkish Lira-denominated future tax liability. In the third quarter, foreign exchange losses on translation of the Company's Mexican-peso denominated future tax liabilities were offset by foreign exchange gains arising from revaluation of the Company's Mexican peso cash holdings and other monetary net assets, and the Company's Canadian-dollar denominated cash and short-term investment holdings.

### Other gain/(loss)

During the third quarter of 2010, the Company reported an other gain of \$12.5 million on completion of a settlement agreement with Primero Mining during the quarter. In consideration for relinquishing all claims, the Company received CAD \$1.0 million cash and shares and warrants with a fair value of \$11.5 million.

On a year-to-date basis, the other gain includes a loss on the sale of mobile equipment of \$0.9 million and a \$0.4 million write-down of fixed assets that were no longer in use.

### Income Taxes

Tax expense in the third quarter of 2010 was \$5.0 million compared to \$5.3 million in the same period of 2009. 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 2010, 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 2010 is 30%. In Canada, the combined federal and provincial statutory income tax rate is 31% in 2010. The effective tax rate for the third quarter of 2010 (calculated as a percentage of earnings before income tax) was 20%. The lower effective tax rate in the third quarter of 2010 compared to the statutory rate and prior quarters is attributable to the \$12.5 million gain realized on completion of the settlement agreement with Primero Mining. The Company has tax loss carryforwards not previously recognized available in Canada which will offset this gain, thereby decreasing the effective tax rate. This decrease in the effective tax rate is partially offset by stock based compensation expense, which is not deductible for tax purposes and has the effect of reducing earnings before income tax and increasing the calculated effective tax rate. The effective tax rate results from a number of factors, many of which are difficult to forecast.

### 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<br>2008 | Q1<br>2009 | Q2<br>2009 | Q3<br>2009 | Q4<br>2009 | Q1<br>2010 | Q2<br>2010 | Q3<br>2010 |
|--------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Gold production (ounces) | 39,347     | 46,000     | 42,000     | 42,500     | 48,000     | 41,600     | 38,400     | 30,200     |
| Gold sales (ounces)      | 40,176     | 40,058     | 45,420     | 43,201     | 49,145     | 42,148     | 39,688     | 28,000     |

|                                            |        |        |        |        |        |        |               |        |
|--------------------------------------------|--------|--------|--------|--------|--------|--------|---------------|--------|
| Gold sales (\$000)                         | 32,400 | 35,521 | 41,978 | 41,283 | 52,649 | 46,651 | 47,494        | 34,336 |
| Earnings from operations (\$000)           | 8,708  | 11,743 | 17,111 | 17,984 | 25,605 | 21,905 | 19,066        | 12,711 |
| Earnings (\$000)                           | 9,140  | 8,797  | 12,969 | 14,115 | 20,081 | 14,005 | 12,078        | 19,484 |
| Earnings (\$ per share)<br>– basic/diluted | 0.10   | 0.09   | 0.12   | 0.13   | 0.18   | 0.12   | 0.11/<br>0.10 | 0.17   |

Gold sales revenues generally trended higher over five of the past eight quarters as the Company has optimized mining operations and benefited from rising gold prices. Higher realized gold prices and gold sales have resulted in generally improved financial results. The third quarter rainy season in Mexico adversely impacted gold production, sales and operating results in 2010 and could continue to do so in future years if rainfall is significantly worse than seasonal averages.

### 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"), Mexican pesos ("MXN") and Turkish Lira ("TRL"). 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 September 30, 2010, 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.

The majority of the Company's cash balances are held in United States dollars. However, the Company does maintain cash and cash equivalents denominated in CAD, MXN and TRL. At September 30, 2010, the Company had entered into certain derivative contracts in order to manage its exposures to fluctuations in foreign exchange rates.

The Company's operating costs are primarily denominated in United States dollars. However, the Company also converts operating costs denominated in the CAD, MXN and TRL into United States dollars. As a result, the Company's operating costs are affected by changes in the foreign exchange rates of those currencies. A 10% increase/(decrease) in the value of the CAD against the United States dollar could increase/(decrease) the Company's reported corporate and administrative costs by approximately \$0.6 million annually. A 10% increase/(decrease) in the value of the MXN compared to the United States dollar could increase/(decrease) the Company's mining and processing costs and decrease/(increase) earnings before income taxes by approximately \$2.5 million annually. A 10% change in the value of the TRL compared to the United States dollar would not have a material impact on the Company's operating costs at this time, but could result in a significant foreign exchange gain or loss on revaluation of the Company's TRL-denominated future tax liability balance.

The Company is exposed to monetary assets and liabilities denominated in CAD. The Company maintains CAD cash balances, which are not fully offset by CAD-denominated

liabilities. As a result, the Company has entered into forward foreign currency contracts in order to reduce its exposure to changes in the value of the CAD compared to the USD. In the third quarter of 2010, the impact of the strengthening CAD resulted in the Company recognizing a \$0.3 million foreign exchange gain on CAD-denominated cash balances, partially offset by mark-to-market losses on forward foreign currency contracts. The strengthening 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 maintains cash balances in MXN in order to partially 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.

At September 30, 2010 the Company's TRL-denominated future tax liability of \$17.9 million was only partially offset by \$2.0 million in TRL-denominated cash and short-term investments. This \$15.9 million exposure resulted in a \$1.3 million foreign exchange loss in the third quarter as the TRL strengthened compared to the United States dollar.

### **Liquidity and Capital Resources**

During the third quarter of 2010, the Company's cash and cash equivalents increased by \$15.0 million. Cash in-flows included \$11.2 million cash provided by operating activities, \$17.9 million proceeds on the conversion of short-term investments, \$0.8 million cash proceeds on exercise of options and \$0.8 million attributable to foreign exchange gains on cash held in foreign currencies. Significant cash out-flows in the third quarter of 2010 included \$15.8 million of capital expenditures in Mexico and Turkey.

At September 30, 2010, the Company had \$172.8 million in cash and cash equivalents and short-term investments compared to \$186.9 million at December 31, 2009. The decrease in total cash and cash equivalents and short-term investments of \$14.1 million, reflects the \$40.2 million cash paid to acquire the Turkish projects as well as \$41.1 million in capital spending in Mexico and Turkey, offset by positive cash flows from operations and financing activities. The Company's working capital surplus increased to \$197.6 million at September 30, 2010 from \$196.8 million at December 31, 2009.

The Company has significant budgeted capital and exploration expenditures in both Mexico and Turkey in 2010. In addition to expansion activities at its operations in Mexico, the Company expects to invest significantly in exploration and development activities at its projects in Turkey over the next several years, which the Company expects to be able to finance from a combination of existing cash balances and operating cash flows.

### **Conversion to International Financial Reporting Standards ("IFRS")**

Effective February 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 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 to establish appropriate IFRS financial reporting expertise at all levels of the business. 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, however, training and education remains an ongoing initiative of the Company.

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 through the completion of technical topic papers, and assessed the impact of these differences on the Company's accounting policies, information systems, internal controls over financial reporting and other business processes.

The Company has completed technical papers that address significant GAAP differences and these have been reviewed by the Company's auditors. In addition, the Company has quantified the impact of adjustments to the opening balance sheet, which are outlined in more detail below. Further, the Company has developed its new IFRS-compliant accounting policies, which the Company will include in its first set of IFRS statements in the first quarter of 2011.

The following is a discussion of some of the accounting standards identified that will have a significant financial statement impact on the Company, and the expected impact on the opening balance sheet.

#### 1) IFRS 1, First-Time Adoption of IFRS:

Significant adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of January 1, 2010, the date of the first comparative balance sheet presented under IFRS. However, IFRS 1 provides entities adopting IFRS for the first time a number of optional exemptions and mandatory exemptions, in certain areas, to the general requirement for full retrospective application of IFRS on the date of transition. The following are the optional exemptions which the Company expects to elect:

- a) Business combination election – The election allows the Company to adopt IFRS 3(R) prospectively from the date of transition.
- b) Fair value or revaluation as deemed cost election – The election allows the Company to record certain items of property, plant and equipment at fair value at the date of transition. The Company obtained independent fair value appraisals for its mobile equipment fleet and identified certain significant differences between the carrying value and fair value which will reduce retained earnings and the related carrying value of mineral property, plant and equipment balance by approximately \$1 million (net of tax) as at the transition date.

- c) Share-based payments election – The election enables the Company to adopt IFRS 2 for unvested options at the date of transition to IFRS.
  - d) Decommissioning liabilities included in the cost of PP&E – This election enables the Company to apply a simplified approach for the determination of the corresponding asset balance relating to decommissioning liabilities at the date of transition. The adjustment will reduce the decommissioning liability and corresponding asset by approximately \$0.5 million, with no material impact on opening retained earnings.
  - e) Borrowing costs - This election enables the Company to not retrospectively restate balances relating to the implementation requirements of IAS 23(R), as a first-time adopter is able to apply the transitional provisions from the later of January 1, 2009 or the transition date.
- 2) IAS 16, Property, plant and equipment – The Company believes that its existing accounting procedures adequately account for componentization as required under IFRS. Therefore, no adjustment is expected as a result of the requirement for component accounting.
  - 3) IAS 37, Provisions – Differences between Canadian GAAP and IFRS with respect to the discounting calculation and discount rates applied to future asset retirement costs are being reviewed. The impact on the Company's property acquisition liability is not expected to be material.
  - 4) IFRS 2, Share-based payments – The Company expects changes to its methodology used to calculate stock option forfeitures and the calculation of graded vesting for compensation expense. Based on the IFRS 1 election discussed above, the adjustment results in a reduction of retained earnings of approximately \$3 million, with a corresponding increase to contributed surplus.
  - 5) IFRS 6, Exploration costs – The Company's policy under Canadian GAAP requires exploration and evaluation costs to be capitalized when the properties are identified as having development potential, as evidenced by positive economic analysis on the project. There is no expected impact on transition as a result of the IFRS 6 accounting policies elected.
  - 6) IAS 12, Income Taxes – A key difference has been identified in that a deferred tax liability is recognized under IFRS for a temporary difference, except to the extent the deferred tax liability arises from:
    - a) the initial recognition of goodwill; or
    - b) the initial recognition of an asset or liability in a transaction that is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (i.e. an asset acquisition).

The Company identified differences for certain transactions in which deferred tax liabilities were recognized under Canadian GAAP. The adjustment will reduce the future tax liability and corresponding mineral property, plant and equipment balances by approximately \$3 million, with no material impact on opening retained earnings.

IAS 12, Income Taxes – A key difference has been identified in that a deferred tax liability is recognized under IFRS for a temporary difference caused by changes in the exchange rate of non-monetary assets and liabilities settled in a foreign currency. The Company identified differences to given Canadian GAAP prohibited recognition of deferred tax liabilities for foreign currency changes. The adjustment will increase the future tax liability balance by approximately \$5 million, with a corresponding decrease to opening retained earnings.

The Company is currently in the process of quantifying the impact of the identified GAAP differences for the 2010 comparative period. The Company expects to complete this process by the end of the fourth quarter of 2010.

The Company has also completed a preliminary review of the above areas of potential difference on its information systems and has completed the implementation of an integrated enterprise resource planning software system during the third quarter of 2010. In addition, in order to facilitate financial reporting under IFRS, the Company implemented software to facilitate tracking and accounting for stock options during the second quarter of 2010.

### **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 as at September 30, 2010.

During the third quarter of 2010, the Company implemented an enterprise resource planning software, SAP, at its operations in Mexico and corporate head office in Toronto. Data conversion was completed as at August 31, 2010 and the Company went live with SAP effective September 1, 2010. As a result of this system change, a number of access controls, application controls and financial closing controls and procedures have changed significantly, some of which could have a material impact on internal control over financing reporting in the three-month period ended September 30, 2010. The Company believes that the internal control changes resulting from the SAP implementation have improved the overall control environment and no material weaknesses were noted in the design of any new internal controls over financial reporting implemented during the quarter.

## 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, 2010 and have concluded that these controls and procedures are effective.

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

## Commitments & Contingencies

Contractual obligations 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 \$2.5 to \$3.5 million per quarter.

The Company has signed relocation contracts with certain property owners and possessors in the town of Mulatos. In addition, negotiations for surface rights with respect to the La Yaqui, Cerro Pelon and El Carricito development and exploration properties are ongoing. Negotiation efforts are currently focused on resolving differences in price expectations between the various counterparties.

During the second quarter of 2008, the Company entered into a land purchase agreement with certain landowners. Pursuant to the land purchase agreement, the Company made a payment of \$1,250,000 in order to secure temporary occupation rights to specified land. An additional payment of \$1,050,000 based on current exchange rates is payable once the land has been vacated and is transferred to the Company, which has not been accrued as at September 30, 2010. The probability and timing of this additional payment is currently unknown to the Company.

During the third quarter of 2010, the Company received notice that the Mulatos Ejido had filed a complaint with the Unitary Agrarian Court to nullify the 2008 land purchase agreement. The Company has received a legal opinion that the action is without merit. Preliminary hearings are being held, and the matter remains unresolved by the Court at this time. The Company is committed to completing the agreement based on the original terms. The land purchase agreement does not affect current mining operations of the Company.

Additional future property acquisition, relocation benefits, legal and related 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 2, 2010   |
|-------------------------------------------------------------------------------------|--------------------|
| Common shares                                                                       |                    |
| - Common shares outstanding                                                         | 115,929,706        |
| Stock options                                                                       |                    |
| - Average exercise price CAD\$11.87; approximately 45% vested and 95% in-the-money. | 7,327,400          |
| <b>Total</b>                                                                        | <b>123,257,106</b> |

## Outlook

While gold production in the third quarter of 2010 was below budgeted levels, the Company expects gold production to achieve record levels in the fourth quarter. Production for the fourth quarter is forecast to be in excess of 50,000 ounces, benefiting both from stacking on a new expanded leach pad area and from increased crusher throughput. Gold production in October was in excess of 18,000 ounces, in line with management's expectations. The new screening plant was commissioned on-time and on-budget in early October and has the potential to increase crusher throughput between 13% and 20%. Crusher throughput for the last week of October averaged approximately 15,000 tonnes per day, compared to an average of 12,100 in the third quarter of 2010.

The Company continues to produce gold at industry-leading low costs. On a year-to-date basis, cash operating costs (excluding the 5% royalty) are below budget at \$284 per ounce (total cash cost inclusive of royalty is \$339 per ounce). Despite lower than budgeted third quarter production, the Company is maintaining its 2010 production guidance of 160,000 to 175,000 ounces. However, higher input costs and the strengthening Mexican peso have resulted in the Company increasing its annual cash operating cost guidance from \$288 per ounce to \$300 per ounce, plus the 5% royalty.

Production expansion at Mulatos in 2011 and beyond is expected to be derived from existing heap leach operations, mill processing of high-grade ore and the development of satellite deposits. Construction of the Mulatos Mill to process high-grade ore from Escondida, and potentially other deposits, is expected to begin in the first quarter of 2011, with planned incremental production of at least 55,000 ounces per year starting in 2012, over a minimum two-year mill life. In addition, the Company is in the process of attempting to acquire surface access rights at the La Yaqui and Cerro Pelon satellite deposits, which have the potential to add incremental gold production.

Future production growth is expected to come from the Company's Turkish development projects. The Company plans to complete the preliminary feasibility study and related environmental impact assessment reports for Ağı Dağı and Kirazlı during the third quarter of 2011. On completion of a positive preliminary feasibility study and timely approval of the environmental impact assessment reports and permits, production is planned to commence at Kirazlı in the first quarter of 2013, followed by Ağı Dağı in the first quarter of 2014.

In addition to developing known resources, exploration activities are expected to deliver positive results in the fourth quarter of 2010 and into 2011. Successful surface access right negotiations at the high-priority El Carricito regional exploration target have led to the commencement of a 10,000-meter drill program. El Carricito is the highest potential

exploration project within the Mulatos District and the Company looks forward to assay results being available starting in mid-November 2010.

Further, the Company believes that there is significant potential for mineral resource expansion at both the Ağı Dağı and Kirazlı projects in Turkey. In addition to expanding the limits of the known mineral deposits, there are several high-priority exploration targets in close proximity to the established mineral resources that will be drill-tested in the fourth quarter of 2010 and early 2011.

The Company continues to strengthen its financial position: Debt-free with approximately \$170 million in cash and short-term investments as at November 2, 2010 and strong cash flows from operations. This financial strength will 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.

### **Future accounting pronouncements**

#### International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that public companies will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The conversion to IFRS will require the Company to change certain accounting policies, systems, internal controls over financial reporting and disclosure controls.

#### Business Combinations, Consolidations, Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1582 Business Combinations, Section 1601 Consolidated Financial Statements, and Section 1502 Non-controlling Interests. These new standards are harmonized with IFRS. Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011. The Company does not expect the impact of adoption be significant on the consolidated financial statements.

### **Risk Factors and Uncertainties**

The Company is subject to various financial and operational risks that could have a significant impact on its profitability and levels of operating cash flow, and could cause such future business, operations, and financial condition to differ materially from the forward-looking information contained in this MD&A and described in the Forward-Looking Statements section below. For a more comprehensive discussion of the risks faced by the Company, please refer to the Company's MD&A as at December 31, 2009 and Annual Information Form filed at [www.sedar.com](http://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; 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.

The Company has made projections of its annual production and operating costs based on annual budget which incorporates assumptions based on mining in sequence its mineral reserves at projected rates of tonnes and grade, assessing probable costs for mining and processing activities, projecting reasonable foreign exchange rates and achieving indicated rates of gold recovery derived from laboratory testing and historical experience. These assumptions are considered reasonable in the circumstances, but may be subject to change as additional information becomes available.

## 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.