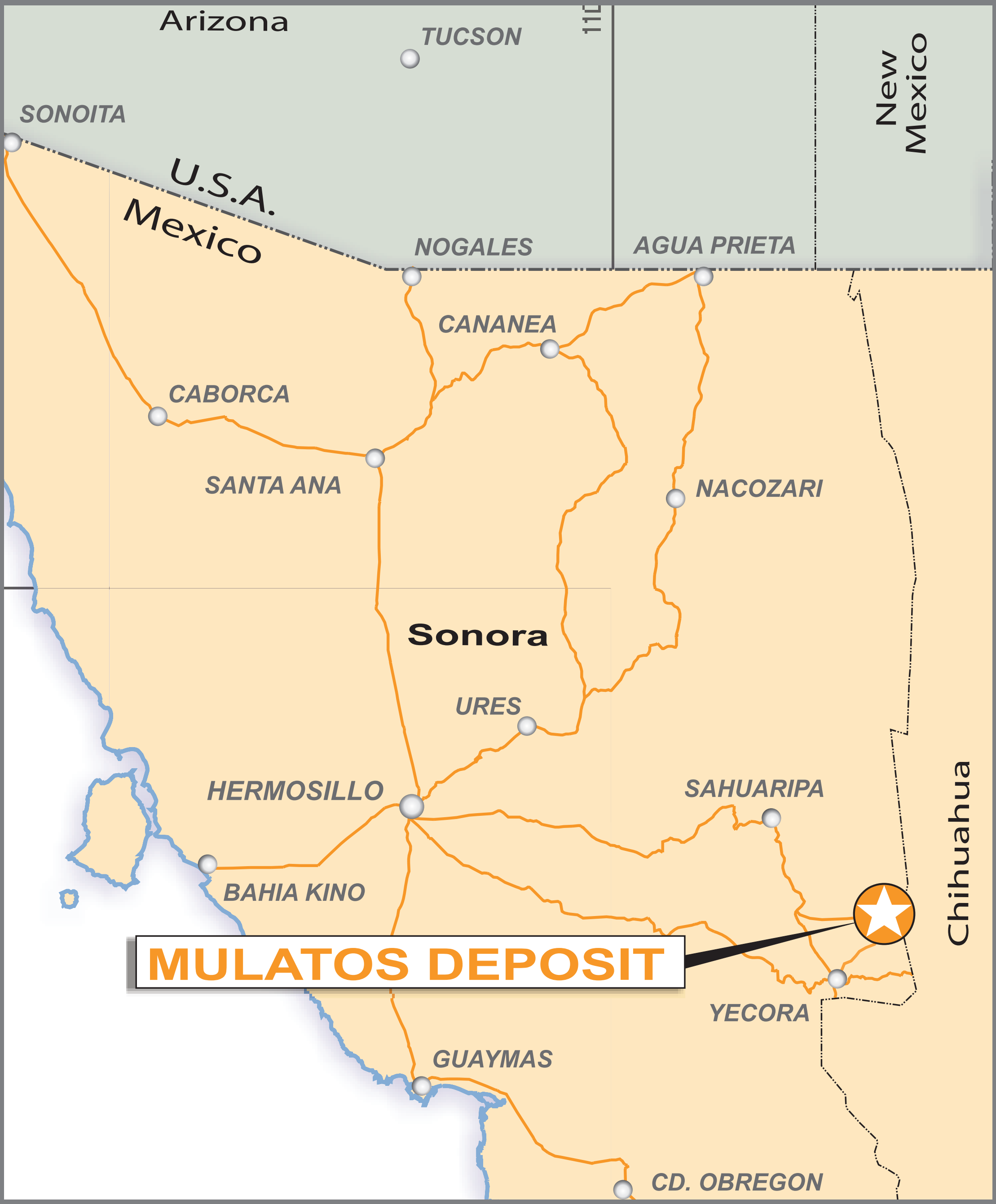
ALAMOS GOLD INC.

2005 Annual Report


Resourceful

Inside



CORPORATE PROFILE: Alamos Gold Inc. (TSX:AGI), owner of Mexico's newest major gold mine, is aiming to produce 140,000-155,000 ounces of gold at a cash operating cost of $210-$225 per ounce in 2006 from its wholly-owned open-pit Mulatos Mine in Sonora, Mexico. The Mulatos deposit consists of several contiguous zones containing resources equivalent to three million ounces. In the second quarter of 2006, Alamos expects to complete a 50% expansion of the mine to 15,000 tonnes per day.

Alamos continues to outline new resources and reserves in satellite deposits at Mulatos and explore for new sources of ore at other regional targets within its Salamandra group of concessions. The 2005 discovery of the high-grade Escondida Hanging Wall Zone just 500 meters from the main pit, in addition to ore-grade mineralization within surrounding claims, demonstrates the excellent exploration potential of Alamos' 21,300-hectare group of concessions.

Highlights

DURING THE YEAR, THE COMPANY Created Greater Shareholder Value By Closing A CDN$50 MILLION CONVERTIBLE DEBENTURE ISSUE IN FEBRUARY 2005, THE PROCEEDS OF WHICH WERE USED TO FUND CONSTRUCTION OF THE MINE, AND BY Securing A $10 MILLION REVOLVING CREDIT FACILITY, WHICH WAS INCREASED TO $16 MILLION SUBSEQUENT TO YEAR END, THEN BY Pouring ITS FIRST BAR OF GOLD DORE FROM THE MINE IN JULY 2005 AND SUBSTANTIALLY Completing CONSTRUCTION OF THE MINE IN THE FOURTH QUARTER OF 2005 AT A TOTAL COST OF APPROXIMATELY $74 MILLION, COMPARED TO THE FEASIBILITY STUDY BUDGET OF $73.4 MILLION. THE COMPANY Created Growth By Commencing A $20 MILLION EXPANSION PROGRAM TO INCREASE THROUGHPUT BY 50% ABOVE THE FEASIBILITY LEVEL TO 15,000 TONNES OF ORE PER DAY, AS WELL AS BY Producing 7,647 OUNCES OF GOLD IN DORE AND BY Selling 5,950 OUNCES OF REFINED GOLD FOR PROCEEDS OF $2.7 MILLION AT A CASH OPERATING COST OF $382 PER OUNCE. THE COMPANY THEN INVESTED $4.7 MILLION IN EXPLORATION ACTIVITIES, THEREBY Discovering THE NEW HIGH-GRADE ESCONDIDA HANGING WALL ZONE LOCATED 500 METERS NORTHEAST OF THE ESTRELLA PIT, AND Increasing RESOURCES BY 55% IN THE EL SALTO/MINA VIEJA AREAS. THEN FINALLY, THE COMPANY ENTERED INTO A LETTER AGREEMENT TO DISPOSE OF ITS NON-CORE LA FORTUNA PROPERTY FOR PROCEEDS ESTIMATED AT $2.0 MILLION.

it's about

Inside this year's annual report you will find the faces of the people who built Mexico's newest major gold mine, the Mulatos Mine. Our achievements in 2005, including the financing, construction and completion of the project, were accomplished though the hard work and dedication of our valued employees. With the establishment of commercial production at Mulatos, this year marks a turning point in the history of the Company. Our accomplishment also represents a turning point for the Salamandra district of Mexico, where the effects of large scale gold mining operations are the generation of new wealth for the region and the creation of hundreds of jobs for its residents.

The Mulatos Mine now operates in stark contrast to the mining activities that occurred in the district more than 400 years ago and even to more recent entrepreneurs who dug gold out of the hills with pick and shovel. From feasibility in June 2004 to commercial production in April 2006, our new mine was permitted and developed to the highest operational standards and capably constructed primarily by local contractors and our own employees.

With a fleet of modern trucks and loaders, a 17,500 tonne per day crusher, 160,000 square meters of leach pad and a 25,000 tonne per day gold recovery plant, our mine is as efficient in its design and execution as can be found. Even so, our operational success rests on the shoulders of the men and women who operate the equipment and provide the services day to day on site. Through their efforts we expect

the people

to realize our 2006 production target of over 140,000 ounces of gold at a cash operating cost of $225 per ounce or lower. This would be a significant accomplishment for our first year as a gold producer.

It is fortuitous for the Company that we enter into commercial production at a time when the price of gold is seeing its highest levels for some 25 years. We have been strongly convinced for several years that gold is in a secular bull market. In my Letter to Shareholders last year I suggested that gold would continue to rise in U.S. dollar terms, and it would also start to appreciate relative to other currencies. This has certainly been the case in 2005 and I believe this trend will continue for the foreseeable future. For this reason, I believe that gold production will remain a good business and gold producers will continue to attract investor interest in the coming years.

While the outlook is positive, the gold mining industry faces some significant challenges in these times. We are in a period of significant commodity inflation, and the effects of rising prices are being felt throughout the industry. Since the completion of the Mulatos feasibility study in 2004, we have seen costs increase for diesel fuel and related transportation, chemicals, plastic liner, equipment and rolling stock, essentially all important cost components of the mining operation. Keeping costs down and profitability high will be a significant challenge going forward.

Relations with local communities will be an ongoing challenge for the mining industry. Your Company knows the meaning of social responsibility and we are putting this principle into action in several specific ways, including medical assistance, educational support and job training.

We have been providing a medical clinic in the local village of Mulatos since we acquired the project three years ago. Our onsite medical staff visit Mulatos every Friday and, in addition, are available 24 hours a day should an emergency arise. All medicine is paid for and supplied by the Company.

We support educational efforts in the local communities by providing educational supplies to the local schools and by encouraging our professional staff to take time to speak with students about the importance of education. We provide tours of the mine for the school children to show that there are many types of employment opportunities at the mine. We also provide job training for those who are interested in upgrading their work skills. As an example, this year Erika Duarte Soto, one of our kitchen staff, completed the training to operate a 100-ton haul truck and has now become one of our drivers.

people

Despite all our efforts in the community and the positive economic impact on the region as a whole, the acceptance of the mine in the community is conditional and must be earned on an ongoing basis. We are diligent in our efforts to be a good neighbor and a responsible corporate citizen, and just as we respect individual and community rights, so in turn we expect our right to operate will be respected by local communities.

The Company has now completed the first phase of its long-term growth plan. The second phase involves expanding the rate of production from 10,000 to 15,000 tonnes of ore per day in the second quarter of 2006. With close to $20 million invested in the expansion to date, we are clearly on our way to achieving this goal. The expansion will have an immediate impact on our production and earnings, and ultimately we expect a reduction in costs as economies of scale take effect.

While our operations people have shown that they are efficient miners, our exploration geologists are working to support operations with the additional reserves adjacent to the current Estrella Pit. To this end, we are tunneling through a 1,700-meter structural corridor, which will provide an efficient drilling platform in that area. We hope to realize the results of our efforts in 2006 by significantly extending mine life and increasing production. Adding value to our existing assets through the drill bit is one of our primary goals in 2006.

With one of the largest and most prospective gold exploration districts in Mexico, the Company is committed to increasing gold resources within this region. Our exploration staff have demonstrated their resourcefulness by making one of the most significant new discoveries in the district during 2005. In short order they have outlined a new high-grade deposit in the Escondida Hanging Wall Zone. With 57 drill holes in the new deposit, they have outlined an area with numerous assay intervals above 50 grams per tonne.

Already this discovery has our mine planners thinking of new recovery processes for this ore, which will change how we operate. Initial base case studies show that a high-grade gold milling operation can add an important increase to annual gold production and lower overall production costs at Mulatos. With a large diverse land package, we are looking to repeat our exploration success in 2006 with another discovery. Already we have encouraging showings at Los Bajios and El Realito upon which we intend to build.

create growth

The last part of our long-term plan is to be a multi-operation gold producer. This involves our geologists, operations and corporate development departments combining resources to evaluate new business opportunities where we as a group can add value. We have an enviable record as a new team that can bring a project to production on budget, and we are ready to duplicate this success.

Our directors have guided the Company through its formative years. At a time when corporate governance is high on the agenda of securities regulators and shareholders, the Company responded by strengthening its board and its committees with the addition of two new independent directors, Messrs. Brian Penny and Mark Wayne. The Company is demonstrating an ongoing commitment to conduct its business with competence and integrity.

It is the effort and dedication of our board, management and employees that has determined the Company's success in 2005. Through a combination of delivering on our promises, a rising gold market and exploration success, the value of the Company has more than doubled in the past year. We look forward to meeting or exceeding our stated goals and objectives in both the short and long term and to continuing to deliver significant value and growth to our shareholders.

John A. McCluskey

John A. McCluskey
President and Chief Executive Officer
April 20, 2006

operations

Location

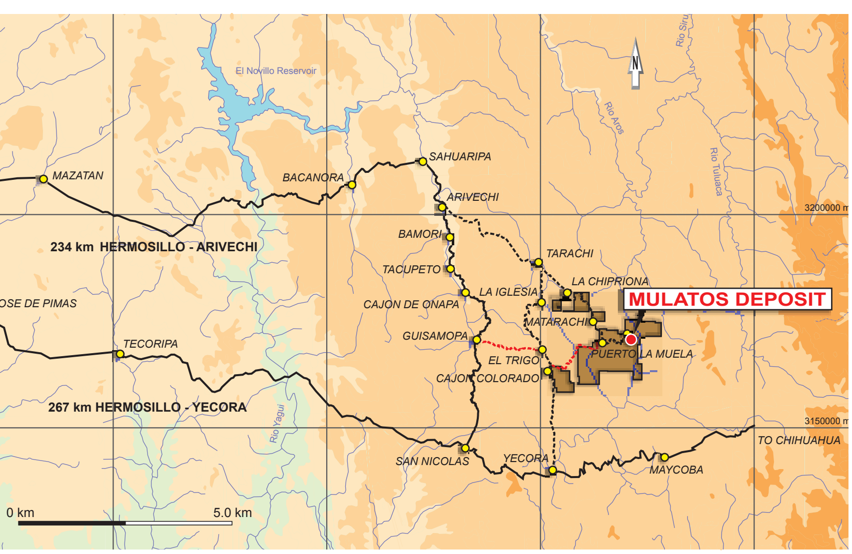
The Mulatos deposit is located 220 kilometers east of Hermosillo in Sonora, Mexico, at an elevation of 1,400 meters above sea level. It is the largest deposit developed to date within the company's Salamandra group of concessions.

Geology

Mulatos is a high sulfidation epithermal gold deposit hosted within a dacitic dome and breccia complex. Gold is disseminated and occurs in oxide, mixed oxide/sulfide and sulfide ore types, with pyrite as the primary sulfide material. Mineralization is closely associated with silicic and advanced argillic alteration.

Reserves & Resources

Proven and probable reserves at the Mulatos deposit were calculated in the feasibility study prepared in June 2004. The Mulatos deposit consists of several contiguous zones containing measured and indicated resources of 62.2 million tonnes, grading 1.51 grams per tonne (g/t) at a cut-off grade of 0.6 g/t, or three million contained ounces. Within the Estrella zone, which is currently being mined from an open pit, proven and probable reserves total 36.4 million tonnes, grading 1.64 g/t. This represents reserves of 1.9 million contained ounces of gold, of which 1.4 million ounces are recoverable. Resources and reserve calculations are based on a gold price assumption of $350 per ounce. Approximately 830,000 tonnes of ore at a grade of 1.52 g/t were mined in 2005. Reserve models are currently being updated.



Progress

Construction began in the third quarter of 2004. The first gold pour occurred in July 2005 and by December the major components of the mine, including the gold recovery plant, Phase One of the leach pad and facilities to accommodate 250 full-time workers were in place. Construction and commissioning were substantially completed in December 2005. The total cost to complete construction of the Mine was approximately $74 million.

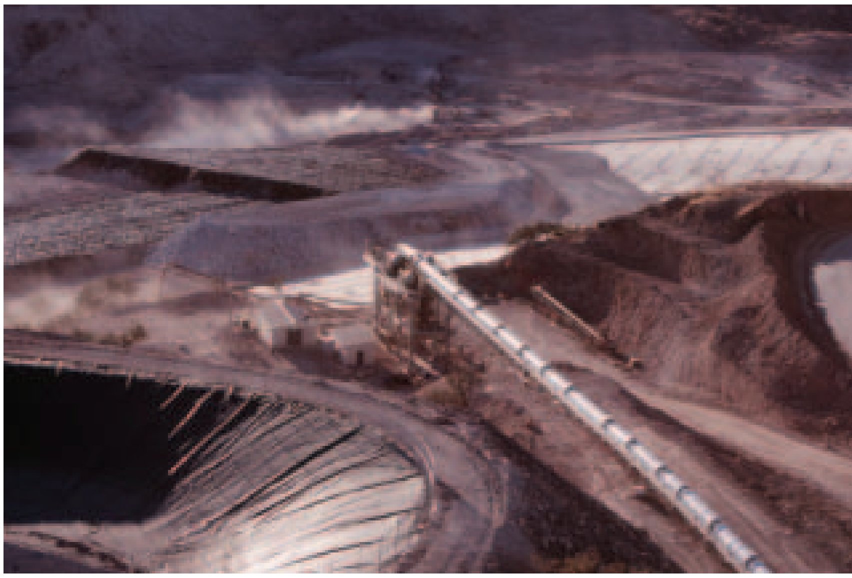
By year end 2005, mining of 830,000 tonnes of ore and the removal of 4.6 million tonnes of waste from the Estrella Pit were complete. In 2006, the waste-to-ore-ratio will be 2:1, higher than feasibility levels because the faster mining rate requires more working room for the equipment, but the average life-of-mine ratio of 1.4:1 for the Estrella Pit remains unchanged.

Mining is by conventional open-pit methods using 12.3 m^3 front end loaders and fourteen 90 to 100-ton haul trucks. The 2006 mine plan calls for ore to be crushed in a three-stage crushing circuit at a rate of 15,000 tonnes per day (tpd), 50% above the feasibility study level, by the end of the second quarter. The crushed ore is then conveyed to, and stacked on, the leach pad.

Ongoing exploration and development work at El Salto/Mina Vieja, at Escondida/El Victor and at the Escondida Hanging Wall Zone, just north of the Estrella Pit, are expected to result in a significant increase in proven and probable reserves in 2006. Resources at El Salto/Mina Vieja are estimated to be 527,000 ounces, while both surface and underground drilling continue to identify additional

Highlights

- Obtained registered title for the 2004 purchase of 1,200 hectares of land from the local owners, the Ejido Mulatos
- Constructed 160,000 m^2 of leach pad
- Installed a 25,000 tonne per day (tpd) gold recovery plant
- Assembled a 17,500 tpd crusher system and 20,000 tpd conveyor
- Completed construction of the Mulatos Mine in early 2006 on budget at $74 million
- Mined 830,000 tonnes of ore and removed 4.6 million tonnes of waste
- Poured first gold in July and produced 7,647 ounces by year end



operations

resources within the other zones. As resources are converted to reserves, the two areas – first El Salto and then Escondida – can be incorporated into the Mulatos Mine plan.

Ore Processing

The process plant consists of a conventional crushing plant with a capacity of 17,500 tpd, a conveyor that can handle up to 20,000 tpd, a heap leaching facility, a carbon-in-column circuit and an electrowinning and refining plant.

Crushing takes place in three stages. Ore is first crushed to 80% passing 15 cm in a primary jaw crusher. Ore from the primary crusher is then conveyed to a coarse ore stockpile with a storage capacity of 10,000 tonnes. Two apron feeders take the ore from the stockpile to feed the secondary crusher via conveyor. Secondary throughput reports to two tertiary crushers that crush to 0.9 cm. After crushing, the ore reports to the leach pad via an overland conveyor.

The 1,600 meter long conveyor transports the crushed ore to the leach pad area southwest of the crusher, where ore is stacked and leached. The heaps are underlain by an impermeable plastic layer on top of 0.4 meters of compacted clay. To dissolve gold in ore, cyanide solution is applied to the ore on the leach pad using a drip tube irrigation system. Gold-bearing solution is channeled to the pregnant solution pond and is then pumped to the carbon-in-column circuit where gold is recovered from solution. The barren solution is then recirculated to the heaps with added cyanide. Dore bars are produced on site and transferred to a third-party refinery for final recovery of gold and minor amounts of silver.

Power & Water Supply

The power plant consists of six 1,000-kilowatt generators and has been operating since June 2005.

Water for the operation is pumped from the Mulatos River at 950 meters above sea level. In addition to the river water, the Company has constructed a dam south of the waste dump that can impound up to 309,000 m^3 of water and is less expensive to draw from than the river source because of its higher elevation of 1,270 meters.

operations

2006 Objectives

In 2005 the Mulatos Mine poured 7,647 ounces of gold in dore. By the end of the second quarter of 2006, Alamos expects to complete the expansion of the Mine to 15,000 tpd and produce between 140,000 and 155,000 ounces of gold in 2006 at a cash operating cost, exclusive of royalties, of between $210 and $225 per ounce. The Company intends to continue to drill to define proven and probable reserves in the El Salto, Mina Vieja and Escondida areas, look for more deposits in the Salamandra district and investigate opportunities outside the district. The Company also plans to design a recovery plant to process ore from the new high-grade Escondida Hanging Wall Zone. In 2007, we expect to produce more than 200,000 ounces of gold at a cash operating cost, exclusive of royalties, of $200 per ounce.

exploration

Highlights

- 200 holes (29,668 m) drilled in seven project areas with encouraging results
- 188,000 ounces of measured and indicated gold resource ounces added at El Salto
- New high-grade gold discovery at top of Escondida deposit
- 1,179 meters of underground development completed in Escondida and El Victor mineralized areas

The Salamandra group of concessions surrounding the Mulatos Mine consists of 21,300 hectares of mining claims that contain both advanced and grassroots exploration prospects similar to the Mulatos deposit. In 2005, Alamos spent $4.7 million exploring these areas, with the majority of expenditures allocated to near-mine resource expansion projects.

There are several advanced exploration projects near the Estrella Pit that have the potential to add resource and reserve ounces to the greater Mulatos deposit, including both mineralization extensions and satellite deposits. In 2005, Alamos focused its attention on expanding resources at the El Salto, Mina Vieja, Escondida and El Victor project areas. Underground development and drilling of the mineralized corridor between the Escondida and El Victor zones are ongoing.

On a regional scale there are nine grassroots exploration targets that have potential for discovery, including El Realito, El Halcon, Los Bajios, La Dura, El Jaspe, Cerro Pelon, La Yaqui, Carboneras and El Carricito. In 2005, Alamos focused on drilling the El Jaspe and Los Bajios prospects and generating targets within several of the project areas.

In 2006, Alamos will continue underground development and core drilling in the Escondida, El Victor, and Gap areas in order to expand resources and define reserves. The El Realito, El Jaspe, and Los Bajios project areas will be advanced by second phase drilling programs. First phase drilling programs are slated for La Yaqui, Cerro Pelon, El Halcon, and Carricito. Exploration expenditures are projected to be $6.5 million, allocated predominantly to the resource expansion areas.

Advanced Exploration

EL SALTO/MINA VIEJA

Location: El Salto lies directly northeast of the Estrella Pit and west of the historic workings at Mina Vieja. The El Salto resource area is located west of the Mulatos drainage, whereas Mina Vieja is directly to the east and includes most of the historically mined area.

Geology: Gold mineralization at El Salto and Mina Vieja is hosted within strongly silicified coarse-grained volcaniclastic fragmental rocks and underlying rhyodacite porphyry. There are three recognized gold controls: northeast structural zones, stratigraphy, and late sheeted fractures and fault zones. Stratigraphy appears to have been the dominant control, with the majority of mineralization stratiform in nature. The deposit is offset to the west by the Mulatos fault and does not continue to the north due to lack of favorable host rock. El Salto mineralization is contiguous with Mina Vieja.

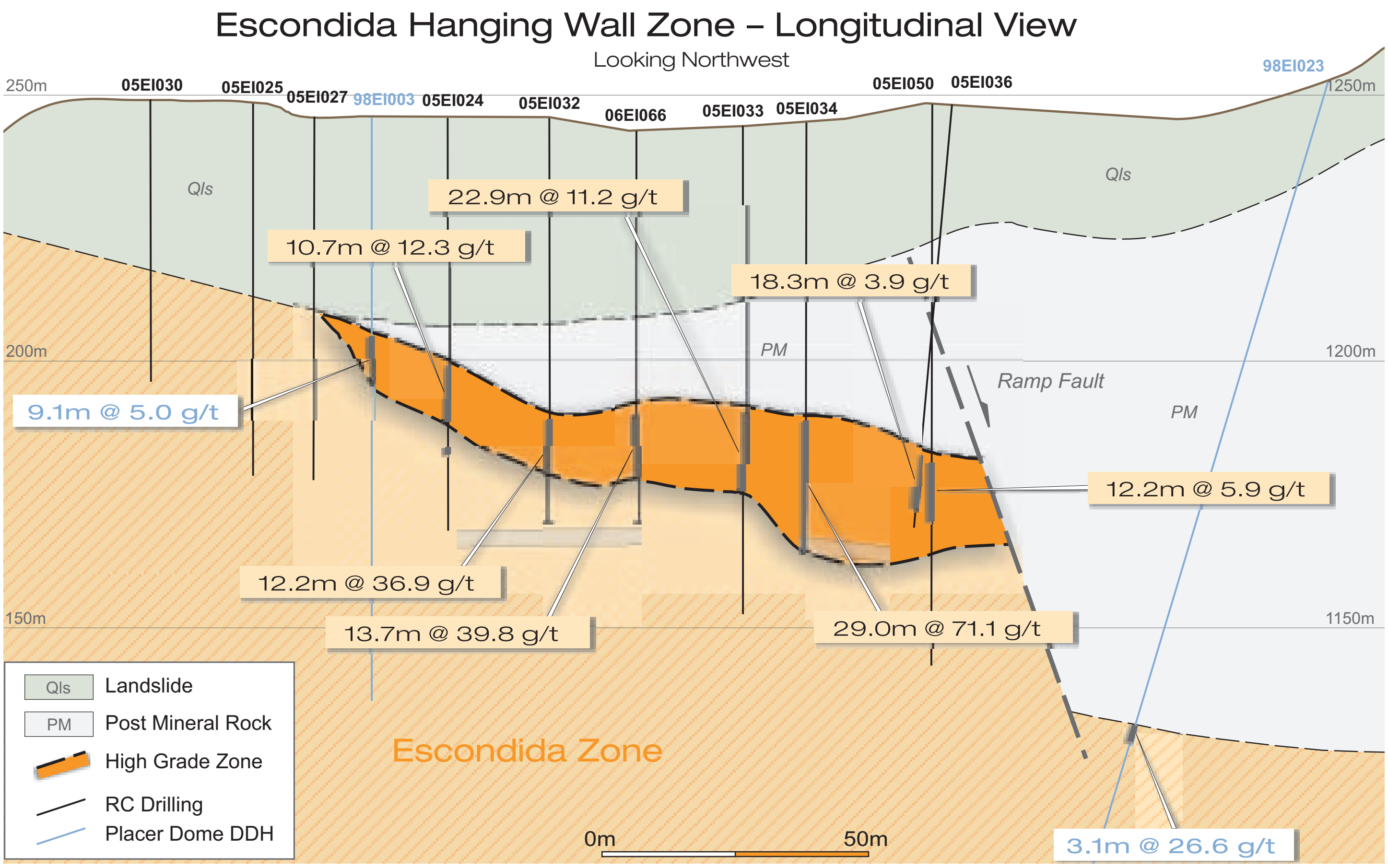
High-grade gold was mined at Mina Vieja as predominantly stratiform mineralization occurring directly below an intensely argillized fine-grained volcaniclastic unit that apparently acted as an impermeable seal to gold-bearing solutions. Historic reports indicate approximately 250,000 ounces of gold production prior to 1905 in the 15 g/t to 60 g/t range. The deposit is bound to the east by the Escondida fault.

Activity: Drilling at El Salto and Mina Vieja in 2005 resulted in a 55% increase in resource ounces. Measured and indicated gold resources now stand at 527,000 ounces at a 0.5 g/t cut-off grade compared to 339,000 ounces in January 2004.

A reverse circulation program, consisting of 79 infill and step-out holes (13,319 m), was completed in June 2005. The program was expanded beyond original projections to follow up on new intercepts along the western margins of the El Salto resource and a near-surface zone of higher grade mineralization at the historic Mina Vieja deposit.

The resource model is currently undergoing independent reserve estimation. Once resources are converted to proven and probable reserves, El Salto and Mina Vieja have the potential to make significant contributions toward mine life extension.

exploration



ESCONDIDA

Location: The Escondida deposit lies 500 meters northeast of the Estrella Pit and 200 meters to the east of Mina Vieja.

Geology: Gold mineralization in the Escondida deposit is very similar to that in El Salto/Mina Vieja, with the Escondida deposit thought to be the faulted extension of one large deposit extending from El Salto. The Escondida deposit is stratiform and hosted within strongly silicified coarse-grained volcaniclastic fragmental rocks and underlying rhyodacite porphyry. The zone is approximately 500 meters long, 250 meters wide, greater than 100 meters thick, and is covered by landslide material and barren post-mineral volcanic rocks.

A zone of stratiform high-grade gold occurs at the top of the Escondida zone with geological characteristics identical to those at Mina Vieja.

Activity: In May 2005, Alamos began an underground development drift to conduct underground drilling for resource and reserve definition. At year end, over 1,083 meters of development had been completed, including eight drill stations. Over 93% of the development rock was ore-grade material, with 9,381 tonnes averaging 1.37 g/t shipped to the leach pads. The average grade of the development rock was significantly higher than the average 1.01 g/t gold grade calculated for the Escondida deposit in the 2004 Alamos resource estimate. Two underground core rigs are currently drilling within the deposit, with 52 holes (4,827 m) completed by March 2006. The program is expected to be complete in July 2006.

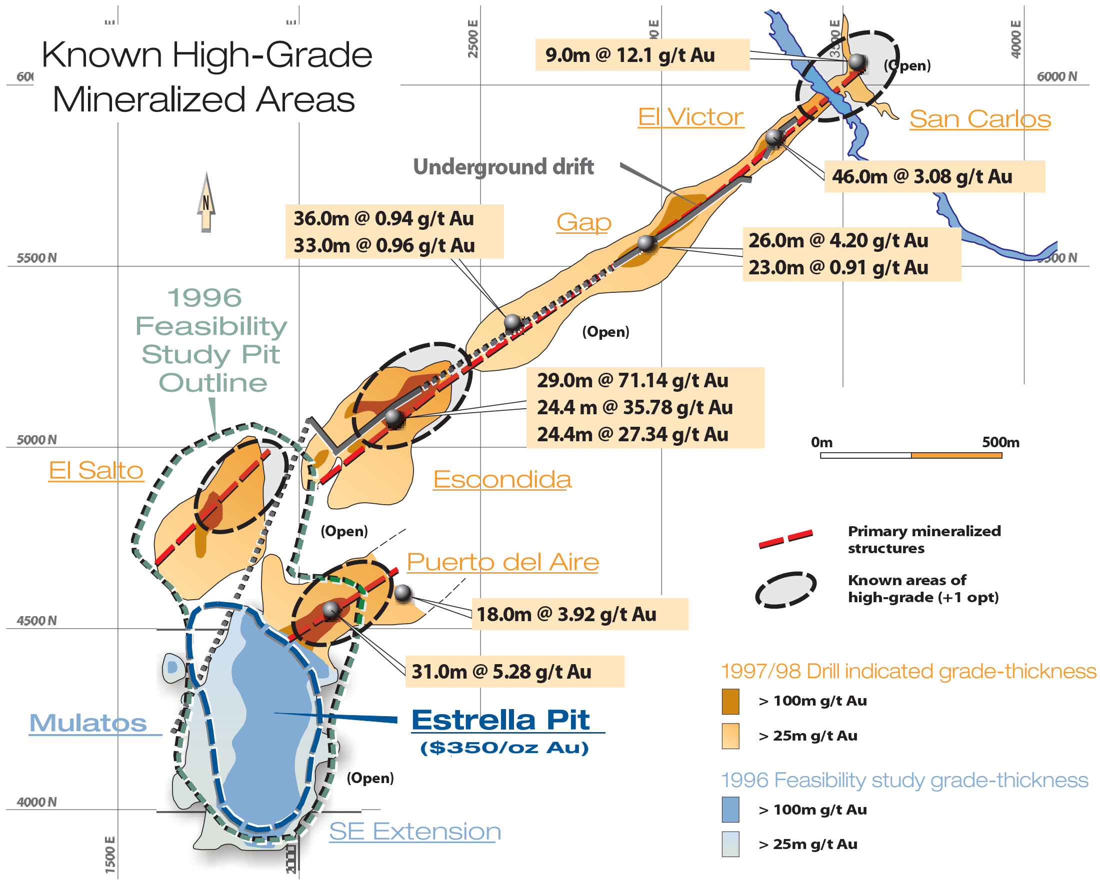
In late 2005, a surface reverse circulation drilling program at Escondida intersected the highest gold grades ever encountered in the Mulatos deposit, with individual 1.5-meter intervals of 100 g/t to 540 g/t. Fifteen contiguous reverse circulation holes drilled into the Hanging Wall of the Escondida deposit intersected native gold mineralization with local bonanza grades. The best intercept was 29.0 meters of 71 g/t, including an interval of 7.6 meters of 199 g/t.

The high-grade zone is stratiform and directly overlies the lower-grade portion of the Escondida deposit. It is comprised of brecciated cryptocrystalline silica with coarse-grained native gold associated with barite and pyrite as open-space fracture and breccia matrix filling. The coarse-grained gold mineralization is distinct from that found in the lower-grade Mulatos deposit.

A total of 52 surface reverse circulation holes (4,827 m) have been drilled to date to determine the extent of the Escondida Hanging Wall Zone. Additional step-out holes to the south and northeast are in progress. So far, drilling has outlined a zone of mineralization that is 165 meters long by 75 meters wide.

The new discovery occurs in an area where only low-grade mineralization is indicated in the current resource model and is expected to add significantly to overall resource ounces. The entire Escondida deposit will be incorporated into a revised reserve model after drilling is complete in the second quarter of 2006. Exploration will continue along the

exploration



Escondida to El Victor trend, where geology is believed to be favorable for the discovery of additional zones of high-grade mineralization.

ESCONDIDA–EL VICTOR UNDERGROUND DEVELOPMENT

Underground drifting is in progress along a 1.7-kilometer mineralized structural corridor connecting the Escondida and El Victor zones. Over 1,179 meters of underground development in three separate headings, or about 57% of the project, was complete by the end of 2005. Approximately 756 meters of development remained. An additional 181 meters of underground development was completed at El Victor East. Although the El Victor drift has been placed marginal to the mineralized zone for optimum drilling advantage, approximately 64% of the development rock (4,983 tonnes) has been ore-grade material and shipped to the leach pads, at an average grade of 0.91 g/t of gold and 12.5 g/t of silver.

A single underground core rig began drilling at El Victor in January 2006, with 23 holes (1,750 m) completed to date.

Regional Targets

Approximately $1.4 million was spent on other prospective areas within the Mulatos district concessions, mostly in the Los Bajios, El Realito and El Jaspe project areas.

Difficult drilling conditions hampered the programs on both the El Jaspe and Los Bajios properties. Numerous holes had to be abandoned while in mineralization, or could not be completed to projected depth. However, preliminary results, including the discovery of blind gold-bearing alteration at Los Bajios, are encouraging.

Drilling will continue at Los Bajios and El Jaspe in 2006, as well as other properties in the district.

LOS BAJIOS

Location: Los Bajios is about 6 kilometers southwest of the Estrella Pit and 3 kilometers west of the leach pads.

Geology: Los Bajios is a zone of extensive alunite alteration contiguous with the El Halcon alteration to the southwest and La Dura to the north. The property contains both silicified multi-stage fragmental units similar to those hosting gold in the northern portion of the Mulatos deposit, and copper-gold mineralization and alteration similar to that found at El Halcon. Localization within a major structural zone is suggested by geologic relationships, and at least one major low-angle structure is recognized in the project area.

Both surface grid samples and down-hole alteration mineralogy indicate a strong silica-pyrophyllite association at West Bajios very similar to that at Mulatos. The pyrophyllite alteration is believed to be showing zoning toward the center of the system in the north-central portion of the project area, the current focus of exploration activities.

Activity: A reverse circulation program at West Bajios in 2004 encountered the thickest and deepest (greater than 300 m deep) intersections of silicic alteration and oxidation

known in the region. Results were followed up in 2005 with a 3D-induced polarization (IP) survey to determine the extent of the mineralized zone and detect the roots of silicified breccias in the southeastern portion of the project area.

A second phase drilling program consisting of 20 reverse circulation holes and one deep core hole tested geologic and geophysical (3D-IP) targets as well as a new concept of northwest mineralization control, rather than a northeast trend as indicated from airborne geophysical data. Five contiguous holes at the extreme northwest edge of the drilled area encountered thick intercepts of oxidized vuggy silica-pyrophyllite alteration strongly anomalous in gold, with narrow potentially ore-grade intercepts. The area is problematic for drilling, with drill holes frequently terminated in the mineralized zone due to caving conditions, poor sample recovery and stuck drill

exploration

steel. One core hole successfully penetrated the zone, but at slow drilling rates and high cost. Assay results are pending. Additional step-out holes at a different drill orientation are planned in 2006.

A limited first phase drilling program was completed in the Central Bajios area, located 1 kilometer east of the West Bajios area. Five holes (802 m) were drilled, which encountered a previously unknown blind zone of stratiform sulfide-bearing silicified breccia below weakly altered surface rocks. Up to 53 meters of sulfide-bearing silicified breccia were encountered, but assay results indicate only weakly anomalous (100-250 ppb) gold. The presence of the breccia over a large area suggests exploration potential, particularly if the structural source of the stratiform mineralization can be located. Additional geophysical surveys will be implemented in 2006.

EL JASPE

Location: El Jaspe is about 8 kilometers northwest of the Estrella Pit and leach pads.

Geology: El Jaspe contains several square kilometers of stratiform silicic alteration hosted within the andesitic rocks of the lower volcanic series. The silicic alteration hosts several small historic gold workings. A geochemical grid shows anomalous gold in soil samples over several hundred square meters south of the historic workings.

Activity: First phase drilling, consisting of 34 holes (4,566 m), delineated an extensive zone of blind gold-copper-silver mineralization within a thick, stratiform silica-pyrite breccia body that is the down-dip extension of the surface alteration. Strongly elevated silver values are coincident with the gold mineralization and appear to reflect a different style of mineralization in the district.

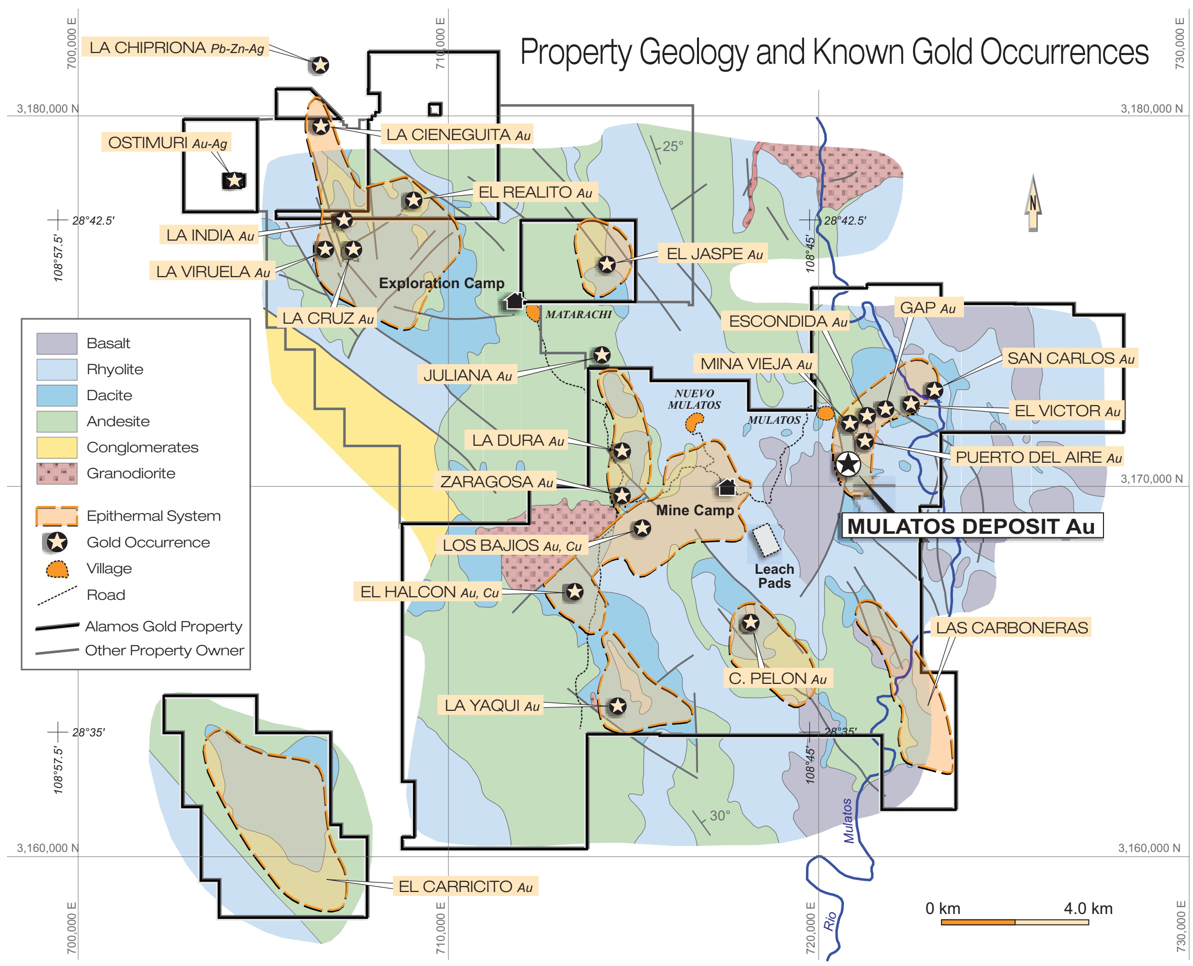
The best intervals to date are 2.25 g/t of gold over 6.1 meters, 1.46 g/t over 7.6 meters and 0.85 g/t over 13.7 meters within an approximately 50-meter interval of sub-cut-off grade (0.5 g/t) material. Strongly elevated silver is coincident with the gold mineralization. One hole drilled late in the program contained narrow intervals of up to 358 g/t of silver and 1.5% copper within a 94.5-meter section of mineralized, brecciated silica. A second phase program to follow up these results is scheduled for 2006 after geophysical work is complete.

EL REALITO

Location: El Realito is located in the northwestern portion of the Salamandra district about 6 kilometers northwest of El Jaspe and 12 kilometers northwest of the Estrella leach pad.

Geology: The property contains the historic high-grade El Realito mine and several other areas of gold-anomalous advanced argillic and silicic alteration within a fragmental dacitic volcanic sequence. Mineralization is characterized by native gold associated with extensive oxidation and pervasive hematite. Oxidation is much more intense and deeper than elsewhere in the district, and is thought to reflect a hypogene oxidation event. The gold-anomalous oxide zone can be traced over 900 meters on the surface.

Activity: El Realito was the target of extensive exploration by Placer Dome in the 1990s, including airborne geophysics, mapping and sampling. In 2004, Alamos drilled 14 reverse circulation holes in the central portion of the zone, nine of



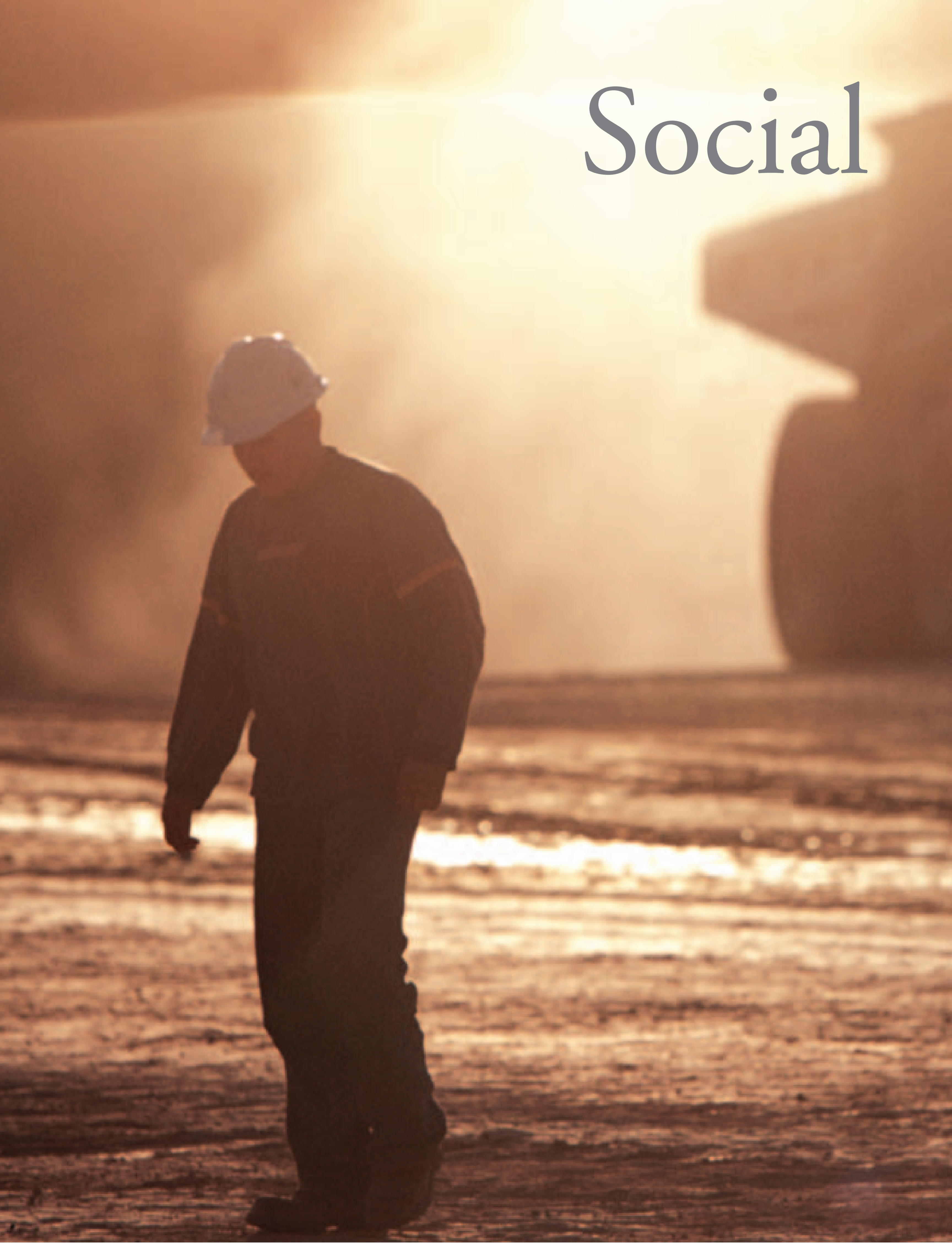
which encountered significant intercepts of oxidized gold mineralization over a 400-meter strike length.

Geologic mapping and sampling completed in 2005 have identified additional areas of gold-anomalous alteration. A large soil geochemical grid was completed over the central project area, revealing a 250-meter by 500-meter gold anomaly to the north of the mine workings with values of more than 250 ppb. Maximum gold concentrations range from 3.3 ppm to 5.8 ppm, apparently sourced in the rugged cliffs northeast of the mine workings. Drilling resumed at the end of 2005 upon the arrival of a second reverse circulation drill rig and after other, higher priority properties were tested. Drilling is currently in progress.

OTHER TARGETS

Drilling at El Halcon, Cerro Pelon and La Yaqui are awaiting completion of surface land access agreements.

Social



Responsibility

We are growing responsibly.

The ongoing growth and future viability of our Company depends greatly on the health and well-being of our employees and their families, the members of our local communities, and the physical environment in which we operate.

In order to protect and even improve the quality of human life and the environment, we have successfully implemented a variety of programs and policies in the areas of health, safety, environment, community relations and education.

We are committed to leading the industry by continuous development and enhancement of these and additional programs.

social responsibility

In May 2005, Alamos formed a committee to review and monitor our technical, environmental and social programs, as well as employee health and safety. The duties of the committee include reviewing and approving environmental and social policies and programs, and monitoring activities that could affect the environment or the health and safety of our employees. The committee consists of two directors, both of whom have technical expertise in mine development, geology or engineering.

Community Relations

Alamos is committed to improving the quality of life in the regions where we operate by investing in education, health care and other important community initiatives.

In 2005, we granted seven scholarships, two for university and five for high school, to residents of the town of Mulatos. We also paid for the construction of a new classroom and school supplies, made a donation towards the purchase of a generator and sponsored public speaking classes for ten students. Groups of high school students were given tours of the mine site to educate them about the mining industry.

In addition to supporting education, we contributed to health care delivery in the region by arranging weekly visits by a doctor to Mulatos and the nearby town of Matarachi to provide medical care and prescriptions. A doctor at our onsite clinic is available around the clock for any medical emergencies that members of the community may have

Environmental Responsibility

Taking care of the environment is inherent in all our activities, from the earliest stages of exploration to the day-to-day operations of the mine. To minimize environmental risk and the impact on the local area, we have completed detailed analyses of soil, water, vegetation, wildlife, cultural resources and socio-economic conditions in the Mulatos region. An environmental impact statement has been accepted by SEMARNAP, the environmental protection agency of Mexico.

Alamos continually updates its estimates for reclamation and closure of the mine, while ongoing reclamation of the waste dump is included in mine operation costs. At December 31, 2005, Alamos had recognized an obligation of $2.1 million on its balance sheet for reclamation and closure activities expected to be incurred in 2015 and beyond. Long-term closure objectives include revegetating the waste dump and pit haul roads, returning a physically stable and chemically manageable heap leach area to productive cattle ranching, monitoring surface water and groundwater, and constructing earth berms around the edges of the open-pit to prevent public access.

Maintaining a Safe and Healthy Workplace

The Board's Technical, Environmental, Social & Employees' Health and Safety Committee sets policies and oversees the management of environmental, social and safety performance for the Company.

Our Health Program provides assistance to our employees, the community of the Mulatos town and nearby communities. During the year, we continued to build on our entire Health Program by establishing vaccination campaigns for the communities, holding weekly visits to the Mulatos town and providing 24-hour assistance at the clinic built at our mine site.

Alamos is continually aware of the fact that human life is our main asset. In this respect, we believe that it is our obligation to ensure that safe conditions are established in all work areas to provide adequate protection for our workers. We promote ongoing training for our staff and make our best efforts to provide all technological resources and materials required to control the risks inherent in our line of business. Moreover, Alamos seeks to engage our workers to commit to a form of work that complies with safety standards, safe practices and safe procedures on the job to prevent occupational accidents.

management's discussion and analysis

FinancialReview

(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, 2005, compared with the year ended December 31, 2004. Together with the audited 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 measurement currency and reporting currency is the United States dollar. This MD&A is current to March 15, 2006, 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 2005 audited consolidated financial statements and MD&A, and recommends approval to the board of directors.

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.

management's discussion and analysis

Overview

Alamos Gold Inc. is a publicly traded company on the Toronto Stock Exchange (TSX:AGI) formed through the amalgamation of National Gold Corporation and Alamos Minerals Limited on February 21, 2003. The Company owns 100% of the 21,300-hectare Salamandra group of concessions located in the state of Sonora in northwest Mexico. The Salamandra group of concessions includes the Mulatos deposit and more than nine other prospective exploration targets. The Company commenced mining its Mulatos deposit from the Estrella Pit in 2005.

The Company has four elements to its business strategy:

- Establish itself as a gold producer with improving operating performance and expanding production profile
- Increase proven and probable reserves through conversion of measured and indicated resources
- Make a new mineral discovery on its extensive concessions at Salamandra and expand resources
- Add resources and proven and probable reserves through the acquisition of prospective mineral properties

During 2005, the Company made significant progress on the first three components of its business strategy. Advances on its fourth strategy are more dependent on factors outside the Company's control, such as the availability of mineral properties at a reasonable price which meet the Company's investment criteria.

The Company was successful in completing construction of the Mulatos Mine (the "Mine") in 2005. The first bar of gold dore was poured from the Mine in July and construction was substantially complete by December 2005, with the exception of the crusher and conveying system which became operational in early 2006. The Mine reached feasibility processing levels in February 2006, and the Company forecasts gold production of between 140,000 and 155,000 ounces of gold in 2006.

Initial ore production from the Mine is derived from the Estrella Pit, which contains proven and probable reserves of 36.4 million tonnes grading 1.64 grams per tonne of gold (g/t) or approximately 1.9 million contained ounces of gold. Current proven and probable reserves are contained within a measured and indicated resource of 62.2 million tonnes grading 1.51 g/t or approximately 3 million contained ounces of gold.

The Company is also actively exploring and developing other targets within the Salamandra concessions. Development drilling was undertaken at El Salto and Mina Vieja adjacent to the Estrella deposit, and is in progress at Escondida and El Victor north of Estrella with the objective of increasing existing resources and upgrading measured and indicated resources to proven and probable reserves. In December 2005, the Company announced a high-grade discovery at Escondida. Exploration drilling is underway at the El Jaspe, Los Bajios and El Realito targets. At this time, the Company is awaiting a revision to its proven and probable reserves at Estrella, incorporating results from El Salto and Mina Vieja.

2005 Highlights

- Closed a CDN$50 million convertible debenture issue in February 2005, the proceeds of which were used to fund construction of the Mine
- Secured a $10 million revolving credit facility, which was increased to $16 million subsequent to year end
- Poured its first bar of gold dore from the Mine in July 2005
- Substantially completed construction of the Mine in the fourth quarter of 2005 at a total cost of approximately $74 million, compared to the feasibility study budget of $73.4 million
- Commenced a $20 million expansion program to increase throughput by 50% above the feasibility level to 15,000 tonnes of ore per day
- Produced 7,647 ounces of gold in dore and sold 5,950 ounces of refined gold for proceeds of $2.7 million at a cash operating cost of $382 per ounce
- Invested $4.7 million in exploration activities resulting in the discovery of the new high-grade Escondida Hanging Wall Zone, located 500 meters northeast of the Estrella Pit, and a 55% increase in resources in the El Salto/Mina Vieja areas
- Entered into a letter of agreement to dispose of its non-core La Fortuna property for proceeds estimated at $2.0 million
- Incurred a loss of $9.4 million ($0.12 per share)

management's discussion and analysis

Selected Annual Information

(000s)	2005	2004 (restated)	2003
	$	$	$
Operating revenues	2,726	–	–
Loss	9,447	4,767	1,934
Total assets	126,200	74,884	28,423
Total long-term financial liabilities	39,042	50	–
Loss per share	0.12	0.08	0.05
Cash dividends	–	–	–

The Company commenced construction of its Mine in 2004 and began production in 2005. Construction was funded, in part, through a CDN$50 million convertible debenture issue and $4.8 million in capital leases. Losses have increased due to the adoption of accounting policies relating to the expensing of stock-based compensation commencing in 2004, and financing-related costs commencing in 2005. No dividends were declared in the reported periods.

Results of Operations

The Company's major asset is the Salamandra group of concessions in Sonora, Mexico which totals approximately 21,300 hectares and includes the Mulatos deposit and more than nine other exploration targets identified to date. The Mulatos deposit consists of several contiguous mineralized zones which contain gold resources of approximately 62.2 million tonnes of ore grading 1.51 g/t at a 0.6 g/t gold cut-off, measured and indicated, excluding mineralization contained in the Gap, El Victor and San Carlos zones. In June 2004, a feasibility study was completed on the Estrella zone of the Mulatos deposit, which contained gold proven and probable reserves of 36.4 million tonnes of ore grading 1.64 g/t at varying cut-off grades, beginning with 0.8 g/t in the early years and declining to the internal cut-off in later years to enhance economics. Proven and probable reserves are 1.9 million ounces of contained gold, of which 1.4 million ounces are recoverable, based on metallurgical testing. Proven and probable reserves were calculated using a gold price assumption of $350 per ounce. During 2005, 829,509 tonnes of ore were mined at an average grade of 1.52 grams per tonne of ore.

Construction of the Mine on the Mulatos deposit began in the third quarter of 2004 and operations commenced in the third quarter of 2005 with the pouring of the first dore bar of gold and silver weighing 117 ounces. Dore is sent to a third-party refinery for final processing into salable metals. Construction was substantially completed in the fourth quarter of 2005, with uncrushed run-of-mine ore and colluvial material being stockpiled and stacked on the leach pad in the third and fourth quarters of 2005. Commissioning of the crusher and conveying system was successfully completed in early 2006. Gold production at the Mine in the fourth quarter of 2005 was 5,517 ounces of gold in dore, of which 4,950 ounces of gold were refined and sold. For the full year, the Mine produced 7,647 ounces of gold (subject to final refinery settlements), and 5,950 ounces were sold.

The tables below outline key production and cost indicators during the fourth quarter of 2005 and year to date compared with feasibility study rates and costs:

Production Summary	**Q4 2005**	**YTD 2005**(1)	**Feasibility Study**(2)
Ounces produced	5,517	7,647	N/A
Ore mined – tonnes	634,398	829,509	519,000
Waste mined – tonnes	2,207,501	3,262,553	2,482,000
Total tonnes mined	2,841,899	4,092,062	3,001,000
Waste-to-ore-ratio	3.48	3.93	4.78
Grade (g/t)	1.57	1.52	1.67

Costs per Tonne Summary	**Q4 2005**	**YTD 2005**(1)	**Feasibility Study**(3)
	$	$	$
Mining cost per tonne	1.56	1.45	1.11
Mining cost per tonne of ore	7.00	7.15	6.40
Crushing cost per tonne of ore	N/A	N/A	N/A
Processing cost per tonne of ore	2.31	2.00	1.98
Administration cost per tonne of ore	0.99	0.95	0.97
Cost per tonne of ore	**10.30**	**10.10**	**9.35**

(1) YTD 2005 is from July 1 to December 31, coincident with production from the Mine.

(2) Reflects mine production indicators during the start-up period as reported in the feasibility study.

(3) Mining cost per tonne and mining cost per tonne of ore reflect mining costs during the start-up period as reported in the feasibility study. Crushing cost per tonne of ore is not applicable as the feasibility study contemplated stockpiling of ore during the start-up phase. Processing cost per tonne of ore and administration cost per tonne of ore presented in the table above reflect average life of mine amounts.

management's discussion and analysis

The Mine was in a pre-commercial start-up phase during 2005. Revenue from gold sales and related operating costs were recognized commencing with the Mine's first gold pour in July 2005. However, the Mine had not reached commercial production, and the crushing and conveying circuit was not fully commissioned and operational until 2006.

In the previous table, feasibility study mining costs per tonne and mining costs per tonne of ore represent the costs indicated in the feasibility study for the start-up period. The feasibility study contemplated the stockpiling of ore during the start-up phase, whereas the Mine delivered run-of-mine ore directly to the leach pad during this period. Crushing costs per tonne of ore are not presented as the crusher was not operational in 2005. Processing and administration costs per tonne of ore presented in the table on the previous page reflect the average life of mine feasibility level costs.

Year-to-date mining costs per tonne of ore were higher than feasibility study levels due to the following factors:

- The average life of mine waste-to-ore ratio as indicated in the feasibility study is 1.4:1 with mining costs at $0.95 per tonne. The mine plan during the start-up period had a waste-to-ore ratio of 3.93:1 for the first 4.1 million tonnes of ore and waste mined at a mining cost of $1.45 per tonne. Mining cost per tonne was higher than the average life of mine feasibility levels due to a significantly higher actual waste-to-ore ratio, and was higher than feasibility study levels during the start-up period due to increased haul distances and costs, as described below.
- The haulage distance for ore to the leach pad was approximately 4.5 kilometers as compared to the feasibility study haul distance from the pit to the crusher site of approximately 1 kilometer.
- Higher than forecast expenditures on material and consumables, primarily diesel fuel, also added to operating costs as all materials and personnel are trucked to the Mine's remote site, and diesel fuel is the primary energy source for the Mine.

Cash operating cost per ounce of gold sold was $382 in 2005. Cash operating costs were higher in the feasibility study due to the higher mine costs noted above and due to expected lower recoveries from run-of-mine ore compared with crushed ore.

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. "**Mining cost per tonne of ore**" is a non-GAAP performance measurement that 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**" is usually affected by operating efficiencies and waste-to-ore ratios in the period. "**Cash operating cost per ounce**" and "**total cash cost per ounce**" as used in this analysis are non-GAAP terms typically used by gold mining companies to assess the level of gross margin available to the Company by subtracting these costs from the unit price realized during the period. These non-GAAP terms are also used to assess the ability of a mining company to generate cash flow from operations. There may be some variation in the method of computation of "**cash operating cost per ounce**" as determined by the Company compared with other mining companies. In this context, "**cash operating cost per ounce**" reflects the cash operating cost allocated from in-process and dore inventory associated with ounces of gold sold in the period. "**Cash**

…the Company expects to reduce the cash cost per tonne of ore experienced in the precommercial phase to the feasibility level of $6.54 by using a higher throughput to achieve economies of scale and to offset higher expected energy costs. In addition, the Company expects that optimal crushing will increase recoveries experienced in the precommercial run-of-mine phase and lower operating cash cost per ounce to the $210–$225 range…

operating cost per ounce" may vary from one period to another due to operating efficiencies, waste-to-ore ratios, grade of ore processed and gold recovery rate in the period. "**Total cash cost per ounce**" includes "**cash operating cost per ounce**" plus applicable cash royalties.

Production from the Mine is subject to a sliding scale net smelter royalty commencing on commercial production as defined in the relevant royalty agreement, which, at current gold prices above $400, is set at a rate of 5% of the value of gold and silver, less certain allowed refining and transportation costs. No royalties are expected to be payable on 2005 gold production.

In the fourth quarter of 2005, production was 5,517 ounces of gold. During this quarter, the Company was able to mine ore and waste at a rate higher than initially planned; however, expected lower recoveries from run-of-mine ore (as opposed to ore crushed to feasibility study specifications) resulted in lower production. Block model reconciliations for full benches in the fourth quarter and early in 2006 at Estrella show close correlation to the reserve block model, exhibiting slightly higher overall gold content within ore-grade blocks.

The Company has not yet commenced commercial production and is focused on attaining this milestone. To achieve optimal performance the Company expects to reduce the cash cost per tonne of ore experienced in the pre-commercial phase to the feasibility level of $6.54 by using a higher throughput to achieve economies of scale and to offset higher expected energy costs. In addition, the Company expects that optimal crushing will increase recoveries experienced in the pre-commercial run-of-mine phase and lower the operating cash cost per ounce to the $210–$225 range, after initially producing dore from existing higher cost in-process inventories.

The Company intends to actively develop the Escondida Hanging Wall deposit and develop the lower grade main zone through its underground drill program. This should allow the Company to maintain its initial 10-year mine life, while at the same time forecasting production at levels significantly higher than the feasibility average of 140,000 ounces of gold per year.

Financial Highlights

Prior to July 1, 2005, the Company was a development stage mineral exploration company focused on developing and constructing the mine at the Mulatos Project. Accordingly, comparative quarterly and annual financial results do not reflect the results of mining activities.

The Company's financial results for the quarter and year ending December 31, 2005, are presented below:

	Q4 2005	**YTD 2005**	**Q4 2004** (restated)	**YTD 2004** (restated)
	$	$	$	$
Cash flow from operations (before working capital change) (000s)	(1,801)	(5,105)	(1,534)	(3,568)
Loss for the period (000s)	3,145	9,447	2,076	4,767
Loss per share	0.04	0.12	0.03	0.08
Weighted average number of common shares outstanding	77,384,164	77,179,619	73,074,061	62,202,713

management's discussion and analysis

Increased costs in 2005 on a quarterly and year-to-date basis are primarily the result of interest, accretion and foreign exchange losses associated with the Company's issuance of a CDN$50 million convertible debenture in February 2005. For the year ended December 31, 2005, these costs represent an increase of $4.9 million over the comparable period in 2004.

In addition, exploration costs charged to operations during the year of $1.9 million were $0.9 million higher than the same period in 2004.

GOLD SALES

Details of gold sales for the three-month and six-month periods ended December 31, 2005 are presented below[(1)]:

	Q4 2005	YTD 2005[(1)]
Gold sales – ounces	4,950	5,950
Gold sales revenues	$ 2,285,478	$ 2,726,391
Realized gold price per ounce	$ 462	$ 458
Average gold price for period (London PM Fix)[(1)]	$ 484	$ 462

(1) *YTD 2005 is from July 1 to December 31, coincident with production from the Mine.*

ASSESSMENT OF GOLD MARKET

The gold price fluctuated significantly during the fourth quarter, reaching a quarterly low of $456.50 per ounce in early November and a yearly high of $536.50 on December 12, 2005. The price of gold started the year trading in the $420 per ounce range and ended the year trading above $500 per ounce for the majority of December.

At March 15, 2006, the gold price had increased from its December high of $536.50 per ounce to $556.50 per ounce. The increased gold price is beneficial to the Company, which prepared its feasibility study and proven and probable reserves using a base case of $350 per ounce. At recent levels, the price of gold has had and may continue to have a positive impact on the economics of the feasibility study for Phase I development of the Mulatos deposit. However, it is not possible to forecast future gold price trends and their impact on future results from operations.

OPERATING EXPENSES

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

	Q4 2005	YTD 2005 *
Gold production – ounces	5,517	7,647
Gold sales – ounces	4,950	5,950
Mining and processing ($)	1,970,234	2,269,927
Cash operating costs ($)[(1)]	**1,970,234**	**2,269,927**
– Per ounce sold	**$ 398**	**$ 382**
Royalties and production taxes ($)	-	-
Total cash costs ($)[(2)]	**1,970,234**	**2,269,927**
– Per ounce sold	**$ 398**	**$ 382**
Amortization ($)	476,904	560,967
Accretion of asset retirement obligation ($)	7,000	11,000
Total production costs ($)[(3)]	**2,454,138**	**2,841,894**
– Per ounce sold	**$ 496**	**$ 478**

(1) *Includes all direct mining costs, refining and transportation costs and by-product credits.*

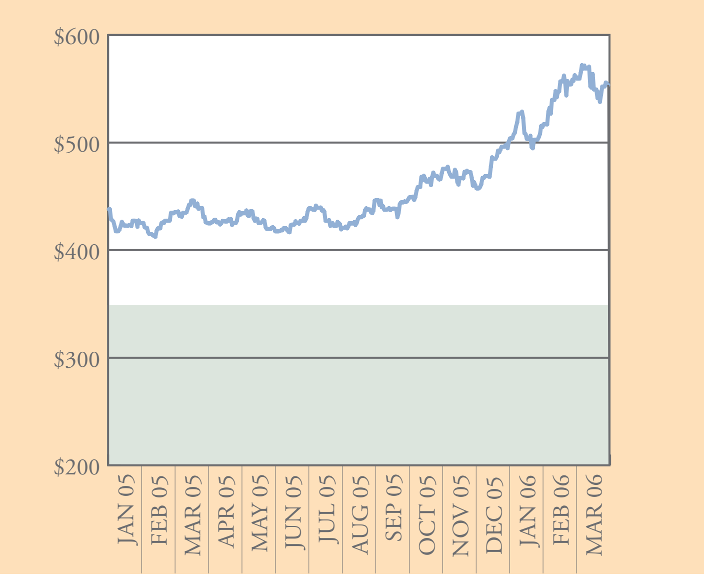
(2) *Includes all cash operating costs, royalties and production taxes.*

(3) *Includes all total cash costs, amortization and accretion of asset retirement obligations.*

* *Note: Reflects amortization and accretion of asset retirement obligation costs for the period subsequent to June 30, 2005 only.*

Increased costs in 2005 on a quarterly and year-to-date basis are primarily the result of interest, accretion and foreign exchange losses associated with the Company's convertible debenture... these costs represent an increase of $4.9 million over the comparable period in 2004.

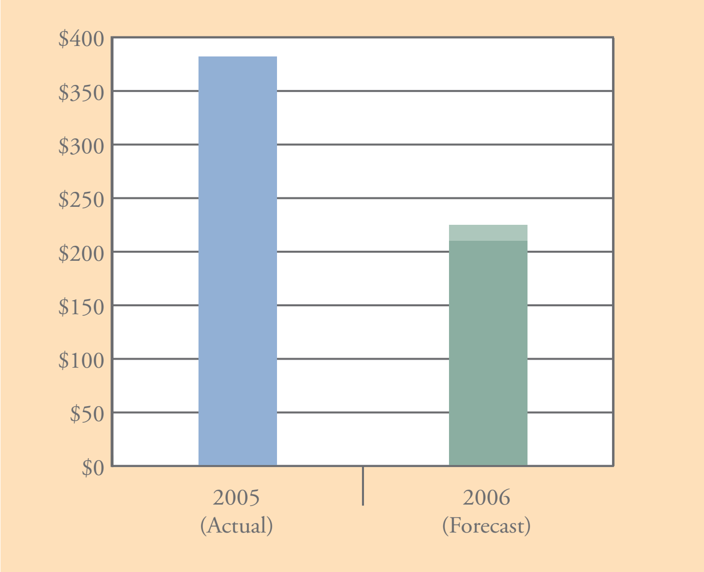
Gold Performance 2005



Gold price

Feasibility study and reserves using a base case of $350.00 per ounce

Cash Operating Cost per Ounce



$382.00 per ounce sold

Range between $210.00 and $225.00 per ounce sold

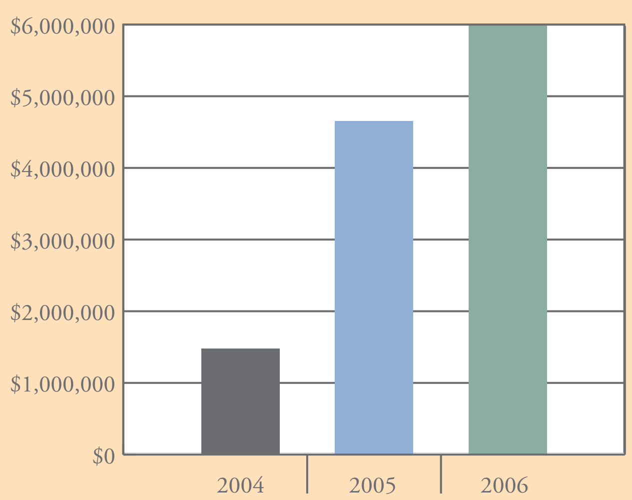
Exploration costs charged to operations during the year totalled $1,889,060 compared to $994,591 in 2004. During the year, the Company changed its accounting policy for exploration costs. In the past, as the Company was in the development stage, exploration costs were capitalized. Under the new accounting policy, certain exploration costs are expensed if the costs do not meet the criteria for classification as mine development costs. During the year, the Company invested a total of $4,650,091 in exploration activities compared to $1,479,905 in 2004.

Corporate and administrative expenses of $577,876 in the fourth quarter of 2005 were 28% lower than the $797,487 incurred in the comparable period of 2004. The key components of this expense are shown below:

	Q4 2005	YTD 2005	Q4 2004	YTD 2004
	$	$	$	$
Salaries and management fees	198,177	1,316,724	159,023	859,310
Legal, audit and accounting	85,078	252,393	97,331	343,137
Corporate and administration	186,819	552,147	362,517	552,924
Shareholder communications	18,896	278,251	69,572	232,798
Travel and accommodation	86,662	276,062	64,990	230,942
Trust and filing fees	2,244	115,834	44,054	196,145
	577,876	**2,791,411**	**797,487**	**2,415,256**

management's discussion and analysis

Investment in Exploration Activities



Year-to-date corporate and administrative expenses in 2005 were 16% higher than in 2004. The increase in 2005 is primarily attributable to bonuses paid in the year ended December 31, 2005, being approximately $0.2 million higher than in the same period of 2004. Bonus payments are classified within salaries and management fees.

Legal, audit and accounting costs and trust and filing fees decreased in 2005 as the corresponding amounts in 2004 included costs associated with the Company obtaining its Toronto Stock Exchange listing. These reductions in costs were partially offset by higher shareholder communications and travel and accommodation costs incurred in 2005. The Company expects corporate and administration costs to be approximately $2.5 million in 2006.

The value of stock-based compensation allocated to expense was $1,142,000 in 2005 compared to $943,965 in 2004.

	2005	**2004**
Number of stock options granted	1,945,000	1,725,000
	$	$
Average exercise price of options granted (CDN$)	4.57	2.55
Value of stock-based compensation (as determined by Black Scholes option pricing model)	2,088,000	1,169,353
Allocated to stock-based compensation expense	1,142,000	943,965
Allocated to mineral property, plant and equipment	151,000	225,388
Unamortized stock-based compensation expense at December 31	795,000	–

During the year, the Company changed its accounting policy for exploration costs. In the past, as the Company was in the development stage, exploration costs were capitalized. Under the new accounting policy, certain exploration costs are expensed if the costs do not meet the criteria for classification as mine development costs.

On June 3, 2005, 1,325,000 stock options were granted. The fair value associated with these stock options was estimated to be $1,078,000 of which $927,000 was expensed and $151,000 was capitalized to mineral property, plant and equipment, based on the nature of the grant. All of the June 3, 2005, options vested immediately on grant, resulting in the entire fair value being recognized in 2005. On December 23, 2005, 620,000 stock options were granted with an estimated value of $1,010,000. Of the 620,000 options granted, 460,000 vest over a two-year period and 160,000 vest over a nine-month period. Accordingly, the fair value of $1,010,000 is amortized to expense over the vesting period and $795,000 of unamortized stock-based compensation expense was outstanding at December 31, 2005.

The average exercise price of the 1,945,000 stock options granted in 2005 was CDN$4.57 as compared to CDN$2.55 for the 1,725,000 stock options granted in 2004. The higher exercise price and number of options granted in 2005 resulted in the value of stock-based compensation being approximately 79% higher.

FINANCIAL REVENUES AND EXPENSES

Interest Income

The Company earned $856,044 in interest income in 2005 compared to $234,219 in 2004. The higher interest income is the result of higher average cash balances maintained throughout 2005, resulting from the proceeds of the debenture offering in early February 2005.

Interest Expense

Interest expense in 2005 of $1,823,609 primarily represented interest on the CDN$50 million 5.5% convertible debentures issued in February 2005. The interest expense recorded for the year is net of $253,750 of interest costs which directly related to financing construction of the Mine and were capitalized to mineral property, plant and equipment. During the same period of 2004, $288,149 of interest expense was incurred related to a previous loan which was repaid in December 2004.

Financing Charges

Financing charges for the year ended December 31, 2005 amounted to $342,082 as compared to $390,473 in the same period of 2004. In February 2005, the Company incurred financing charges of $1,637,871 with respect to the convertible debenture issuance. Of this amount, $416,000 was allocated to the equity component of the convertible debenture. The remaining costs of $1,221,871 are amortized to expense over the five-year term of the debentures. Accordingly, $223,200 of these costs were recognized in 2005. The other significant component of financing charges in 2005 relates to the revolving credit facility entered into in July 2005. The lender was issued 350,000 warrants exercisable until July 21, 2007, at a price of CDN$5.80. The value of the warrants issued was estimated using the Black Scholes option pricing model at $265,000. This financing charge is deferred and amortized on a straight-line basis over the initial one-year term of the credit facility. In 2004 the costs incurred to establish a non-recourse bank facility were charged to operations when the facility was terminated.

Accretion of Convertible Debenture Discount

Accretion expense in 2005 amounted to $1,272,125 (2004 – $nil), net of capitalized accretion of $178,980.

Foreign Exchange Gain (Loss)

The Company incurred a loss on foreign exchange of $711,550 in 2005 primarily due to the strengthening of the Canadian dollar against the United States dollar throughout the year. The foreign exchange rate increased from $1US = $0.81CDN at February 2, 2005, the date the Company completed its convertible debenture issuance, to $1US = $0.86CDN at December 30, 2005.

The Company's main foreign currency exposure results from the CDN$50 million debenture liability due in February 2010. Most of the proceeds of the convertible debenture offering were converted into United States dollars to meet funding requirements for construction of the Mine. Consequently, the Company has a large Canadian dollar monetary liability with a lesser amount of financial assets in the same currency. As a result, it is exposed to a financial gain or loss when there is a change in the exchange rate between the Canadian dollar and the United States dollar. Management has elected to hedge a portion of this exposure through the purchase of Canadian dollar forward contracts. A portion of the Canadian dollar debt was not hedged throughout 2005 as management anticipated the receipt of Canadian dollars on the exercise of its outstanding warrants with an exercise price of CDN$3.50 scheduled to expire on April 8, 2006. The foreign exchange loss related to the debt portion of the convertible debentures in 2005 amounted to $1.9 million as the Canadian dollar strengthened, increasing the U.S. dollar cost to the Company of settling this obligation. Offsetting the foreign exchange loss on the debenture is the realized foreign exchange gains on Canadian dollar denominated short-term investments and cash held by the Company during the year. In addition, the Company recognized approximately $1.1 million in unrealized foreign exchange gains on fixed price contracts to purchase $26 million Canadian dollars. In 2006 the Company expects its exposure to fluctuations in foreign exchange rates on account balances to be reduced as monetary assets are expected to be approximately the same as monetary liabilities in each of its non-reporting currencies.

Income Taxes

The Company has not provided for income taxes on a current or future basis in 2005. However, it is anticipated that the Company will provide for future taxes based on planned income attributable to gold sales in Mexico in 2006. The 2006 statutory tax rates in Mexico and Canada are 29% and 36% respectively.

Summary of Quarterly Results

The following table summarizes quarterly results for the past eight quarters. The Company began operations at the Mine in the third quarter of 2005. Accordingly, no gold sales revenue was reported for periods prior to the third quarter of 2005. Diluted per share amounts have not been presented as the effect on each quarterly loss would be anti-dilutive.

The quarterly amounts presented in the following table have been restated to reflect the new accounting policy the Company adopted in 2005 with respect to mineral exploration.

2005 (restated)	**Q1**	**Q2**	**Q3**	**Q4**	**YTD**
Gold production – ounces	–	–	2,130	5,517	7,647
Gold sales – ounces	–	–	1,000	4,950	5,950
	$	$	$	$	$
Gold sales (000s)	–	–	441	2,285	2,726
Loss from operations (000s)	954	2,166	973	2,060	6,153
Loss for the period (000s)	1,381	2,474	2,448	3,143	9,446
Basic and diluted loss per share (per share)	0.02	0.03	0.03	0.04	0.12
Cash flow from operations (before changes in non-cash working capital)(000s)	(264)	(1,581)	(1,459)	(1,801)	(5,105)

2004 (restated)	**Q1**	**Q2**	**Q3**	**Q4**	**YTD**
	$	$	$	$	$
Loss for the year (000s)	472	1,521	697	2,076	4,766
Basic and diluted loss per share (per share)	0.01	0.03	0.01	0.03	0.08
Cash flow from operations (before changes in non-cash working capital)(000s)	(406)	(1,070)	(558)	(1,534)	(3,568)

Significant variations in losses in each quarter include:

- Non-cash stock-based compensation expense of $927,000 and $215,000 in Q2 and Q4 2005 as compared to $82,775, $469,190 and $392,000 in Q1, Q2 and Q4 respectively of 2004.
- Bonus compensation was granted in the amount of $407,600 in Q2 2005 and $215,000 in Q2 2004.

In addition, the quarterly financial results for Q1 through Q4 of 2005 contain charges for accretion, interest and financing charges relating to the convertible debenture issued in February 2005.

Financial and Other Instruments

The Company's financial assets and liabilities consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities and the liability portion of a convertible debenture, some of which are denominated in Canadian dollars or Mexican pesos. These accounts are recorded at cost, except for the convertible debenture,

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which approximates its accreted value at each reporting period in United States dollars. The convertible debenture was initially recorded at the discounted value of future cash flows, using the Company's risk adjusted discount rate of 12.6%, and is adjusted quarterly for changes in the Canadian dollar to United States dollar exchange rate. The debenture discount is accreted to the carrying value of the debenture on a quarterly basis. The Company is exposed to financial gain or loss as a result of foreign exchange movements against the United States dollar.

For the year ended December 31, 2005, the Company recorded a foreign exchange loss of $711,550 compared to a foreign exchange gain in the same period of 2004 of $121,668. The Company minimizes its foreign exchange risk by maintaining low net account balances in Canadian dollars and Mexican pesos, to the extent possible. The Company has entered into agreements to acquire $26 million Canadian dollars at fixed future prices to offset a portion of its Canadian dollar debenture liability, which is not offset by Canadian dollars on deposit. The Company has placed its cash and cash equivalents in short-term liquid deposits or investments that provide a revised rate of interest upon maturity.

The Company has limited exposure to monetary assets and liabilities denominated in Mexican pesos, but the Company does incur operating costs denominated in both the Canadian dollar and the Mexican peso. Accordingly, the Company's operating costs are affected by changes in foreign exchange rates in those currencies. The Company has elected not to hedge these exposures by buying fixed rate forward contracts in either the peso or the Canadian dollar as the exchange rate for both currencies has been stable in recent periods and the Company does not anticipate significant volatility in 2006.

At December 31, 2005, the Company had outstanding gold forward contracts to sell 2,000 ounces of gold in January 2006. These contracts were not designated as hedges at inception. The marked-to-market valuation of these contracts resulted in a loss of $93,600. The Company contracts for future gold sales to closely match expected delivery dates within the current financial quarter. At this time, the Company does not anticipate entering into long-term forward sales contracts as the gold price currently appears to have some upward bias due to strong physical and investment demand. The Company will continually monitor the effectiveness of this policy.

Investment in Mineral Property, Plant and Equipment

Cash invested in mineral property, plant and equipment for the year ended December 31, 2005, was approximately $58 million. Construction of the Mine was substantially completed in December 2005 at a total cost of approximately $74 million after the allocation of $2.5 million of non-essential work to Phase II. This compared to the budgeted amount to complete the initial phase of $73.4 million, although some projects, such as a permanent truck shop, were removed from the construction budget and allocated to future sustaining capital. The variance over the budgeted amount is primarily due to higher than budgeted costs associated with refurbishing and installing the crusher and conveying system. Phase I leach pad costs were also higher than budgeted. Mining capital and equipment costs were lower as a result of purchasing some used mining equipment. Allocations from contingency and cost escalation compensated for substantially all specific cost area over-runs.

During the year, the Company commenced a planned expansion of the Mine from a budgeted rate of 10,000 tonnes of ore per day to 15,000 tonnes of ore per day to more closely align production with the capacity at the crusher/conveyor and gold recovery plant. Approximately $20 million was budgeted for this expansion, which included \$10.4 million for additional haulage equipment in 2005. The equipment was acquired in 2005 ahead of mining requirements in order to supplement the Company's existing mining equipment and to replace construction contractors' equipment which generally did not meet the performance and availability stipulated in the contracts. An additional \$10 million is planned to be spent in 2006 for loaders, dozers, graders and Mine infrastructure to support the Mine expansion. Included in the planned expansion for 2006, is \$1.9 million of capital for leach pad expansion to accommodate the additional expansion tonnage. The crusher, conveyor and plant currently have sufficient capacity to handle the additional planned output.

Major cost areas and variances from the approved budget for the Mulatos Mine Project were:

Mulatos Mine Project Costs

(000s) **Cost Area**	**Budget**	**Estimated Cost at Completion**	**Variance favorable (unfavorable)**
	$	$	$
Mining Capital	12,587	10,480	2,107
Crushing	12,257	21,088	(8,831)
Leaching	7,985	10,675	(2,690)
Carbon Plant/ADR	2,721	4,173	(1,452)
Utilities and infrastructure	12,757	13,527	(770)
Engineering, procurement and construction management	4,106	4,606	(500)
Contingency, escalation and other	9,398	–	9,398
Owner's cost	11,680	9,689	1,991
Total	**73,491**	**74,238**	**(747)**

The Company recorded an increase of \$2,050,000 in the valuation of its asset retirement obligation in 2005. This increase in the valuation reflects the future liabilities incurred during the period based on the completion of the construction of the Mine. The valuation of the asset retirement obligation reflects the discounted cash flows anticipated for future removal and site restoration and is added to the cost of mineral property and mine development. Project closure costs include waste dump cover, heap leach closure, equipment decommissioning and removal. This is in addition to progressive reclamation of the waste dumps.

Mineral Property Held for Sale

In November 2005, the Company entered into a letter agreement with Morgain Minerals Inc. ("Morgain") to sell the La Fortuna Property for consideration of five million common shares of Morgain. The Company and Morgain also intend to enter into a Technical Services Contract for a 1% net smelter royalty ("NSR") on future production from the La Fortuna Property. The La Fortuna Property has a carrying value of \$1,012,538. In addition, the value of any intercompany book debt due to the Company will also be assigned to Morgain. The fair value of the Morgain common share consideration as at March 15, 2006, was approximately $2.0 million. No gain on disposition will be recorded as the transaction will be accounted for as a non-monetary exchange. This mineral property has been classified as held for sale on the consolidated balance sheet. Shareholder and regulatory approvals are not required for the sale of La Fortuna by the Company.

Exploration and Mine Development Activities

During 2005, the Company invested $4.7 million in exploration and development activities. This investment was lower than the budgeted level of $6 million. The Company experienced slower than anticipated underground drift development and delayed surface drilling due to weather-related issues and longer than anticipated negotiations for surface access to drill sites.

Exploration activities during the year were focused on areas in close proximity to the Estrella Pit, specifically El Salto, Mina Vieja and Escondida. A breakdown of the exploration expenditures by project is presented in the table below:

Project name	2005 ($000)	2004 ($000)
Escondida	1,403	–
Mina Vieja/Mulatos	1,173	472
El Salto	198	–
Los Bajios	485	578
El Realito	314	342
El Victor	513	–
El Jaspe	306	–
Other	258	88
	4,650	**1,480**

The El Salto resource area is located directly northeast of the Estrella Pit, and Mina Vieja adjoins the El Salto area to the east and is the site of the historic production at Mulatos. A reserve estimate is expected shortly to add to the proven and probable reserves currently at Estrella. The timeline for completion of the reserve estimate was extended in order to complete 26 drill holes not in the original plans which were added to follow mineralization extensions, and to complete additional check assays at the request of the consultant completing the resource model.

A development drift connecting the Escondida and El Victor zones was initiated to complete development drilling from underground along a 2 kilometer mineralized structural corridor. Approximately 1,083 meters of a 1,775 meter drift has been completed from portals at opposing ends of the drift. A third drift with 185 meters of total development has been completed for underground drill access in the eastern portion of the El Victor zone. Good ore-grade continuity has been established in the development zones. Most of the development muck taken from the drift (93% from the Escondida portal and 64% from El Victor) has been ore-grade material averaging over 1.0 g/t. A total of 9,381 tonnes of material at 1.37 g/t gold has been trucked to the leach pad from the Escondida drift and 9,393 tonnes at 0.96 g/t gold from El Victor.

Drill stations have been established for the drilling of a minimum of 70 holes, with two underground core rigs currently drilling in the Escondida zone and one at El Victor. To date, 52 holes (4,827 meters) have been completed at Escondida and 23 holes (1,750 meters) at El Victor. Assay results are released when the results become available.

A ventilation hole drilled from the surface into the Escondida development drift encountered a higher grade zone at the top of the Escondida deposit, with the hole returning 12.2 g/t over 10.67 meters.

Fifteen step-out reverse circulation holes intersected native gold mineralization with local bonanza grades. The best intercept was 29.0 meters of 71.0 g/t gold, including an interval of 7.6 meters of 199.0 g/t gold. A total of 52 holes (4,827 meters) have been completed in this high-grade zone.

In addition, the Company is currently drilling regional grassroots targets at El Realito (Phase II) consisting of a planned 38 hole drill campaign on a large soil gold anomaly north of previous mine workings. At the West Bajios Project, 44 holes have been drilled to date in an area of concealed thick silica alteration.

The Company has budgeted approximately $4 million in 2006 for drifting, drilling and metallurgy for the Escondida / El Victor underground programs. Approximately $1.6 million is planned for regional exploration, with an additional $0.9 million intended for follow-up work, if warranted.

Liquidity and Capital Resources

In February 2005, the Company issued a $40.3 million (CDN$50 million) 5.5% convertible unsecured subordinated debenture maturing on February 15, 2010, net of a 3.5% underwriters' fee. The debenture bears interest at an annual rate of 5.5%, payable semi-annually in arrears on February 15 and August 15 of each year. The debenture is convertible into common shares at a rate of 188.6792 common shares for each CDN$1,000 principal amount of debentures. In certain circumstances, the debenture may be redeemed in whole or in part at the option of the Company after February 15, 2008.

The debenture is classified as a liability with the exception of the portion relating to its conversion features, which is classified as an equity component, resulting in the carrying value of the debenture being less than its face value. The discount is being accreted over the term of the debenture.

The Company has put in place an unsecured $10 million revolving line of credit with a bank, available for general corporate purposes. Subsequent to year end on February 7, 2006, the bank increased the amount available to the Company from $10 million to $16 million. As at March 15, 2006, $6 million had been drawn on this facility.

At the end of 2005 the Company had $4.5 million in cash and cash equivalents compared to $28.1 million (which includes short-term investments) at December 31, 2004. The Company also had $1.2 million in funds set aside to pay interest on the convertible debentures due in February 2006, in accordance with the terms of the trust indenture. In February 2006, $1.2 million was paid as interest to the debenture holders from the trust account, and the Company deposited an additional $2.4 million with the debenture trustee to fund interest payments due in August 2006 and February 2007.

At December 31, 2005, the Company had $13.0 million in working capital, a decrease from the working capital balance of $29.0 million at December 31, 2004. Cash, cash equivalents and short-term investments were $23.6 million lower than the balances at December 31, 2004. The Company received $48.1 million in new funding, primarily from a $40.3 million convertible debenture issue in February 2005, and invested $58 million in mineral property plant and equipment, plus cash outflows of $12.7 million from operations, including $8.9 million for finished product, in-process precious metals and parts and supplies inventory. The investment in in-process inventory reflects the cost of pad-loading and stockpiling gold-bearing material undergoing processing into a gold/silver dore product.

Accounts payable and accrued liabilities increased from $0.9 million at December 31, 2004, to $5.3 million at December 31, 2005, primarily reflecting the inclusion of payables related to mining operations. Interest payable of $0.9 million is related to the convertible debenture for the period from the last interest payment date on August 15, 2006, to the end of the year. In the fourth quarter of 2005, the Company entered into capital lease agreements for mining equipment. The total outstanding capital lease obligation was $4.8 million at December 31, 2005, of which the current portion of $1.2 million is included in working capital.

The Company expects to have a Mine working capital requirement of approximately $13 million–$15 million throughout 2006, depending on the level of in-process precious metals and parts and supplies inventory, and the timing of recovery of refundable sales taxes, up from the current level of $12.2 million, which includes short-term contractor advances and recoverable taxes. The value of in-process inventory is expected to increase as production levels ramp up to an expected target of 15,000 tonnes of ore per day. Approximately $1.2 million plus interest is payable annually on the Company's capital lease obligations. No principal payments are required on the debenture until February 2010.

Subsequent to December 31, 2005, the Company received over $8 million from the exercise of stock options and warrants. The Company expects to receive an additional $6.8 million from the exercise of warrants that are due in April 2006. With the addition of these funds and anticipated cash flow from operations, the Company expects that it will have sufficient liquidity to meet its operating, capital and working capital requirements for 2006. In addition, the Company has $10 million in unused lines of credit. The Company expects to extend the term of its existing credit facility after July 2006, but has not yet entered into discussions with its lender.

Off-Balance Sheet Arrangements

The Company has entered into certain foreign exchange forward and gold sales contracts that may, in certain circumstances, be classified as off-balance sheet arrangements. In 2005, due to the nature of the contracts entered into, the marked-to-market value of these contracts was recorded on the balance sheet.

The Company has entered into agreements to acquire $16 million Canadian dollars in 2007 and $10 million Canadian dollars in the first quarter of 2006 at a fixed price to offset a portion of its Canadian dollar debenture liability, which is not offset by Canadian dollars on deposit. As at December 31, 2005, the Company had recorded an unrealized foreign exchange gain of $1.1 million on these contracts. After December 31, 2005 one contract to acquire CDN$6.0 million at a fixed cost of $1.1952 came due and was not renewed or extended, resulting in a realized foreign exchange gain of $174,000.

At year end, the Company had contracts to sell 2,000 ounces of gold to a counterparty in January 2006, resulting in a marked-to-market loss of $93,600 recorded as an unrealized forward contract loss. If the contracts had qualified for hedge accounting treatment and the Company designated the contracts as hedges, the value of the contracts would have been recorded only in the future sales period designated by the Company.

Commitments Table (by Period)

The following table presents information with respect to the Company's contractual obligations as at December 31, 2005.

Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
	Payments due by period ($)				
	$	$	$	$	$
Long-term debt obligations(1)	52,320,000	2,360,000	4,720,000	45,240,000	–
Bank debt	3,000,000	3,000,000	–	–	–
Capital lease obligations(2)	5,900,000	1,200,000	2,400,000	2,300,000	–
Future currency purchases	26,000,000	10,000,000	16,000,000	–	–
Liabilities reflected on the Company's balance sheet under the GAAP of the primary financial statements(3)	4,264,000	–	–	–	4,264,000
Total	**$91,484,000**	**$16,560,000**	**$23,120,000**	**$47,540,000**	**$ 4,264,000**

Contractual obligations exclude expenses, except as noted, of a fixed nature expected to be incurred in the normal course of operations.

(1) Based on December 31, 2005, US/CDN exchange rate. The Company issued CDN$50 million ($40.3 million) in convertible debentures due in February 2010, unless converted into common shares of the Company at the option of the holder, with an annual interest rate of 5.5%.

(2) Cash flows relating to capital leases, presented on a non-discounted cash flow basis.

(3) Estimated asset retirement obligations, presented on a non-discounted cash flow basis.

Production royalties, on a sliding scale to the price of gold, at 5% of gold revenue with gold above $400 per ounce, are a contractual obligation once commercial production (as defined in the agreement) is attained, but cannot reasonably be estimated as they are a function of the price of gold and the production rate, neither of which can be ascertained with any certainty.

Related Party Transactions

The Company received consulting services from one director on a fee for services plus retainer basis, resulting in an ongoing commitment. Total contractual fees paid were $69,440 compared to $475,723 paid in 2004 to a director and officer of the Company. In 2004, consulting services were subject to the terms of an annual renewable services contract for an officer and director. The form of this services contract was discontinued in the fourth quarter of 2004. These transactions have occurred in the normal course of operation and are measured at their fair value.

New Accounting Policies

In the third quarter of 2005, the Company achieved its first gold production from the Mulatos Mine. Accordingly, new accounting policies related to revenue recognition, in-process precious metals inventory and parts and supplies inventory were adopted. The Company also entered into long-term leases that are accounted for as capital leases based on the terms of the agreements.

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Under "Critical Accounting Estimates" on the following page, the impact of adopting a more conservative approach to accounting for exploration and development expenditures is presented. This policy was adopted retroactively with restatement of prior periods and it (the policy) resulted in an increase in the loss in 2004 of $994,591 and in 2005 of $1,889,060 from the loss that would have been recorded in those years had the Company maintained its previous accounting policy for exploration and development expenditures.

Outstanding Share Data

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

	As at March 15, 2006
Common shares	
– Common shares outstanding	**80,306,632**
Warrants	
– Exercisable at CDN$3.50 until expiry on April 8, 2006	2,262,500
– Exercisable at CDN$5.80 until expiry on July 21, 2007	350,000
	2,612,500
Stock options	
– Average exercise price CDN$3.04. Approximately 90% vested	**4,661,983**
Convertible debentures	
– Face value CDN$50 million. Convertible into common shares at a rate of 188.6792 common shares for each CDN$1,000 principal amount of debentures	**9,433,960**
Diluted number of common shares outstanding	**97,015,075**

Internal Control

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

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, 2005, 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.

In 2005, new internal controls were implemented at the Company's Mine operations for expenditures, revenue recognition and in-process precious metals inventory. A new purchasing, warehousing, accounting and reporting software package is being implemented in conjunction with the new mining operation. New payroll software and administration will replace a third-party payroll service, and new process controls will be implemented for that function.

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 recently changed its accounting policy for mineral development expenditures, in conjunction with establishing itself as a gold producer. The Company follows a relatively conservative policy for recording mineral property acquisition costs and related mineral exploration and development expenditures. Property acquisition costs are capitalized until the properties are either placed into production, sold, abandoned or written down, where appropriate. Where the fair value of the property cannot be supported objectively through a cash flow analysis due to a lack of measured proven and probable reserves, the Company looks to other indicators of value, such as recent property sales for other properties in a similar locale and at a similar stage of development. The Company's accounting policy for mineral exploration and development expenditures is to expense exploration costs on new projects that do not contain proven and probable reserves until such reserves are objectively established, except where a property is contiguous with a mineral property that has proven and probable reserves, and it is reasonable to believe that further drilling or other means of development can extend proven and probable reserves to that mineral property. The policy is consistent with other mining companies in Canada and is consistent in all material respects with the procedures prescribed by the Securities and Exchange Commission in the United States. The change in accounting policy will result in a lower level of recorded assets and higher deficit each year. Annual exploration expense will more accurately reflect expenditures incurred during the year rather than decisions to write off a property and related expenditures when it is determined to be uneconomic.

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 follows accounting guidelines in determining the fair value of stock-based compensation, as disclosed in Note 15 to the Financial Statements. This calculated amount is not based on historical cost, but is derived from subjective assumptions that have been 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. The fair value of the compensation is either expensed or capitalized as a mineral property development cost depending on the nature of the grant. One factor that may serve to reduce the value of future grants is the expected lower volatility of the Company's share price as it makes a transition from an exploration company to a producing company. Conversely, a higher expected share price may serve to increase the value of future grants.

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 and deficit when the mineral property is in production. Asset retirement costs include future removal and site restoration. Key assumptions in determining the amount of liability are total undiscounted cash outflows, expected timing of payment of the cash outflows, and appropriate 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 statements of operations and deficit. The Company conducted an initial study in 2005 and will update it from time to time as more information becomes available. Most reclamation will occur at the end of the mine life, expected to be in 10 years based on expected mine proven and probable reserves and rate of mining.

Outlook

The Company expects shortly to update its reserve estimate at the Mine, encompassing recent infill drilling at El Salto/Mina Vieja. The Company also anticipates that drilling at Escondida will result in resource and proven and probable reserve revisions in 2006.

The Mine will continue to expand production to achieve its target of 15,000 tonnes per day. Crusher throughput is currently averaging over 6,000 tonnes per day over a 30-day period, with peak throughput exceeding 11,000 tonnes per day. Crusher production is supplemented with run-of-mine material. Over 904,500 tonnes grading 1.6 g/t gold have been placed on the leach pad in the first 74 days of 2006.

Production in 2006 is expected to be between 140,000 ounces and 155,000 ounces of gold at an average cash operating cost (exclusive of royalties) of between $210 and $225 per ounce of gold. Cash operating costs are expected to be higher at the beginning of 2006 as higher cost in-process inventory from 2005 gets processed on site as dore and is subsequently refined and sold.

Exploration activities are expected to continue at several targets within the Salamandra group of concessions. The Company is also looking to complete the drill program on the Escondida Hanging Wall Zone and outline the extent of mineralization, as well as complete the Escondida and El Victor underground drilling. Underground mineral development will continue through the Gap zone with drift completion scheduled for the third quarter of 2006.

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, 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 that 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, labor disruptions, flooding, cave-ins, landslides and the inability to obtain suitable adequate machinery, equipment or labor are risks involved in the operation of mines and the conduct of exploration programs. The Company has relied 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 is affected by many factors, including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, the costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, the importing and exporting of minerals and environmental protection. When expenditures on a property have not led to the discovery of mineral reserves, costs will not usually be recoverable.

Commodity Price

The value of the Company's mineral resources and future operating profit and loss are 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 writeoff 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 and the value of the Company's properties. 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. As of December 31, 2005, the London PM Gold fix closing price for gold was US$513.00 per ounce. 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

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a substantial forward sales book in the face of a rising gold market. At the 2006 expected rate of production, a $1 change in the price of gold per ounce would change revenue, income and cash flow by approximately $150,000 annually, before tax charges.

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. The Company maintains its principal office in Canada, maintains cash accounts in U.S. dollars, Mexican pesos and Canadian dollars and has monetary assets and liabilities in U.S. and Canadian dollars and Mexican pesos. Specifically, the Company's convertible debenture liability of CDN$50 million is denominated in Canadian dollars. The currency exchange rate between U.S. dollars and Canadian dollars fluctuated between US$0.7854 and US$0.8754 for one Canadian dollar in 2005 and between US$0.7156 and US$0.8491 for one Canadian dollar in 2004. As such, 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. While the Company has mitigated some balance sheet risk for Canadian dollar liabilities, it has not undertaken to mitigate transactional volatility in either the Mexican peso or the Canadian dollar at this time. A 1% change in Canadian dollar valuation would impact administration costs by approximately $25,000 annually; a 1% change in Mexican peso valuation would impact operating costs by approximately $200,000 annually.

Business

The Company has limited financial resources that 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 and history of losses, 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.

Competition

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 that can be developed and produced economically; the technical expertise to find, develop, and produce such properties; the labor 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 also conduct refining and marketing operations on a worldwide 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 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 ensure an unencumbered right to exploit the Salamandra 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 that could be material and adverse to the Company.

While the Company has entered into a surface agreement with the Ejido Mulatos and has entered into agreements to purchase all of the surface rights covered by that agreement from the individual Ejido members to whom they have been assigned, the transfers of title to these surface rights are currently being registered under Mexican law. The registration process is a lengthy one and until title to the properties is registered in the Company's name, the Company cannot be certain of enjoying undisputed rights to the surface rights or that registration will be completed as planned or at all.

Environment

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 impact. 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 the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving towards 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.

Regulation

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. Specifically, the Company's activities related to its Mulatos Mine and the Salamandra group of concessions are subject to regulation by SEMARNAP, *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's 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 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 secure 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 Concessions or any other projects in 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 only estimates 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 minable (or viable) deposit that can be legally and economically exploited. 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, 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 expected 2006 production rates, a 1% change in the expected rate of recovery of gold from ores would result in a $3 per ounce change in cash costs and an approximately $450,000 change in income and cash flow annually, before tax charges. A 1% change in cash cost per tonne of ore would result in a $2 per ounce change in cash cost and an approximately $300,000 change in income and cash flow annually, before 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 President and Chief Executive Officer, John McCluskey and its Chief Operating Officer, John Van De Beuken. Key man life insurance is not in place on Messrs. McCluskey or Van De Beuken. If the services of the Company's management and key personnel were lost, the loss could have a material adverse effect on future operations.

Legal

Substantially all of the Company's assets are located outside Canada and are held indirectly through foreign affiliates. It may be difficult, if not 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 Canada.

Forward-Looking Statements

Except for historical information contained in this 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 production, operations, projected quantities of future metal production, anticipated production rates and mine life, operating efficiencies, costs and expenditures and conversion of mineral resources to proven and probable reserves, and other information that is based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

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

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

auditors' report

TO THE SHAREHOLDERS OF ALAMOS GOLD INC.

We have audited the consolidated balance sheets of Alamos Gold Inc. (the "Company") as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada
March 3, 2006

management's responsibility for financial reporting

The consolidated financial statements of Alamos Gold Inc. have been prepared by, and are the responsibility of, the Company's management.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments on information currently available. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized, and financial information is reliable. All internal control systems have inherent limitations, including the possibility of circumvention and overriding of controls, and, therefore, can provide only reasonable assurance as to financial statement preparation and safeguarding of assets.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee meets with the Company's management and external auditors to discuss the results of the audit and to review the annual consolidated financial statements prior to the Audit Committee's submission to the Board of Directors for approval. The Audit Committee also reviews the quarterly financial statements and recommends them for approval to the Board of Directors, reviews with management the systems of internal control and security, and approves the scope of the external auditors audit and non-audit work. The Audit Committee is composed entirely of directors not involved in the daily operations of the Company and thus are considered to be free from any relationship that could interfere with the exercise of independent judgment as a committee member.

The consolidated financial statements have been audited by Ernst & Young LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

March 3, 2006

John A. McCluskey

John A. McCluskey
President and Chief Executive Officer

Jon Morda, CA
Chief Financial Officer

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CONSOLIDATED BALANCE SHEETS

As at December 31 (stated in United States dollars)

	Note	2005	2004 (Restated – Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents		$ 4,518,590	$ 13,127,463
Restricted cash	12	1,219,458	–
Short-term investments	4	–	15,000,000
Fair value of forward contracts	20	966,400	–
Amounts receivable	5	3,861,990	112,117
Advances and prepaid expenses	6	1,934,704	1,733,284
Inventory	7	9,989,355	–
		22,490,497	29,972,864
Deferred financing charges	8	1,183,356	–
Mineral property, plant and equipment	9	101,514,078	43,900,941
Mineral property held for sale	10	1,012,538	1,010,638
		$126,200,469	**$ 74,884,443**
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		$ 5,323,015	$ 943,319
Bank loan	12	3,000,000	–
Current portion of capital lease obligations	11	1,190,448	–
		9,513,463	943,319
Capital lease obligations	11	3,615,856	–
Convertible debenture	12	33,325,939	–
Asset retirement obligations	13	2,100,000	50,000
SHAREHOLDERS' EQUITY			
Share capital	14	87,829,646	86,170,028
Warrants	14	265,000	–
Convertible debenture	12	9,983,025	–
Contributed surplus	15	3,170,036	1,877,036
Deficit		(23,602,496)	(14,155,940)
		77,645,211	**73,891,124**
		$126,200,469	**$ 74,884,443**

See notes to consolidated financial statements

On behalf of the Board

John A. McCluskey   Brian W. Penny

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended December 31 (stated in United States dollars)

	2005	2004 (Restated – Note 2)
OPERATING REVENUES		
Gold sales	$ 2,726,391	$ –
OPERATING EXPENSES		
Mining and processing	2,269,927	–
Amortization	677,627	90,268
Exploration	1,889,060	994,591
Corporate and administrative	2,791,411	2,415,256
Stock-based compensation	1,142,000	943,965
Accretion of asset retirement obligations	16,000	–
Other loss	93,600	–
	8,879,625	4,444,080
LOSS FROM OPERATIONS	(6,153,234)	(4,444,080)
FINANCIAL REVENUES AND EXPENSES		
Interest income	856,044	234,219
Interest expense on long-term debt (net of capitalized interest of $253,750, 2004 – $nil)	(1,823,609)	(288,149)
Financing charges	(342,082)	(390,473)
Accretion of convertible debenture discount (net of capitalized accretion of $178,980, 2004 – $nil)	(1,272,125)	–
Foreign exchange (loss) gain	(711,550)	121,668
Loss for the year	**(9,446,556)**	**(4,766,815)**
Deficit, beginning of year	(14,155,940)	(9,389,125)
Deficit, end of year	**$ (23,602,496)**	**$ (14,155,940)**
Loss per share (note 18)	**$ (0.12)**	**$ (0.08)**

See notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31(stated in United States dollars)

	2005	2004 (Restated – Note 2)
Cash provided by (used for):		
Operating Activities		
Loss for the year	$ (9,446,556)	$ (4,766,815)
Adjustments for items not involving cash:		
Amortization	677,627	90,268
Accretion of asset retirement obligations	16,000	–
Foreign exchange loss on convertible debenture	1,845,093	–
Fair value of forward contracts	(966,400)	–
Accretion of convertible debenture discount	1,272,125	–
Amortization of deferred financing charges	355,117	–
Foreign exchange loss on note payable	–	164,180
Stock-based compensation	1,142,000	943,965
Changes in non-cash working capital:		
Amounts receivable	(1,847,877)	(64,497)
Inventory	(8,796,576)	–
Prepaid expenses	(228,607)	(25,443)
Accounts payable and accrued liabilities	3,302,828	407,250
	(12,675,226)	(3,251,092)
Investing Activities		
Short-term investments	15,000,000	(15,000,000)
Advances to contractors	27,187	(1,666,895)
Mineral property held for sale	(1,900)	–
Mineral property, plant and equipment	(57,944,692)	(26,055,026)
	(42,919,405)	(42,721,921)
Financing Activities		
Convertible debenture issued	40,306,300	–
Common shares issued	1,659,618	51,800,346
Bank loan	3,000,000	–
Capital lease obligations	4,806,304	–
Note repayment	–	(2,362,792)
Deferred financing charges	(1,689,473)	–
	48,082,749	49,437,554
Restricted cash	(1,096,991)	681,347
Net (decrease) increase in cash and cash equivalents	(8,608,873)	4,145,888
Cash and cash equivalents, beginning of year	13,127,463	8,981,575
Cash and cash equivalents, end of year	**$ 4,518,590**	**$ 13,127,463**
Supplemental information:		
Interest paid	$ 1,270,979	$ 288,149

See notes to consolidated financial statements

notes to consolidated financial statements

December 31, 2005 (stated in United States dollars)

1. Nature of Operations

Alamos Gold Inc. and its wholly owned subsidiaries (the "Company") are engaged in the acquisition, exploration, development and extraction of precious metals in Mexico. The Company owns and operates the Mulatos Mine. In addition, the Company holds the mineral rights to the Salamandra group of concessions in the state of Sonora, Mexico which includes more than nine known satellite gold occurrences.

2. Change in Accounting Policy

In 2005 the Company changed its accounting policy with respect to mineral property, plant and equipment. Prior to 2005, the Company was in the development stage and applied an accounting policy whereby costs associated with unproven or undeveloped mineral properties that did not have commercially proven economic mineral reserves were deferred until such time as the related property was placed into production, sold or abandoned.

The Company is adopting a new accounting policy for mineral property, plant and equipment under which exploration costs that do not have the characteristics of mine development costs are expensed as incurred and mine development costs are capitalized as incurred.

This accounting change has been applied retroactively with restatement of prior periods. The Company has determined that the costs incurred with respect to the Escondida, Mulatos and El Salto properties qualify as mine development costs and are now classified as such within mineral property, plant and equipment. Accordingly, the exploration costs in 2005 related to the Escondida property of $1,403,177, the El Salto property of $198,176 and the Mulatos property of $1,172,608 have been capitalized. All other exploration costs incurred in 2005 of $1,889,060 have been expensed. The financial statements for the 2004 year were restated to effect this change with the recognition of $994,591 of exploration costs and a corresponding reduction to mineral property, plant and equipment. There was no cumulative effect of this accounting change on the deficit as at January 1, 2004.

3. Significant Accounting Policies

BASIS OF PRESENTATION

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP") in Canada and presented in United States dollars. Summarized below are those policies considered particularly significant to the Company. References to the Company included herein are inclusive of the Canadian parent company and its consolidated subsidiaries. Canadian GAAP may differ materially from GAAP in the United States. A reconciliation of significant differences between Canadian and United States GAAP is presented in note 21.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the reporting period. Accounts

notes to consolidated financial statements

which require management to make material estimates and significant assumptions in determining amounts recorded include amortization, mineral property, plant and equipment, inventory, asset retirement obligations, accrued liabilities, future income taxes and contingencies. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue is earned primarily from the sale of gold and is recognized when refined metal is delivered to a purchaser pursuant to a purchase agreement that fixes the quantity and price of the metal. Costs incurred or premium income received on forward sales or option contracts are recognized in revenue when the contracts expire or production is delivered. Changes in the fair value of the related asset or liability are recognized in earnings.

INVENTORY

Inventory, which includes gold-in-process, dore, parts and supplies, is stated at the lower of cost or net realizable value.

(i) Dore represents a bar containing predominantly gold by value which must be refined off-site to return salable metals. Dore inventory is valued at the lower of average cost to produce the dore and net realizable value.

(ii) In-process inventory represents costs that are incurred in the process of converting mineralized ores into partially refined precious metals, or dore, consisting primarily of gold by value. In-process inventories are composed of ore in stockpiles and ore on leach pads. Ore in stockpiles represents mined ore that requires crushing or screening before being placed on the leach pads. Leach pad ore represents mined ore that has been stacked on an impermeable pad and permeated with chemical solutions to dissolve precious metals and channel the resulting gold-bearing solutions to a plant for recovery of gold in the form of a dore bar.

Cost of in-process inventory includes operating costs incurred to that stage of the process plus amortization of mineral property, plant and equipment allocable to that stage of the process. Operating costs at each stage of the process are recognized when incurred. Amortization of mineral property, plant and equipment associated with each stage of the process is added periodically. When physical quantities are transferred from one stage of the process to another, associated accumulated costs are also transferred based on average cost per recoverable ounce of gold contained in that inventory at the time of transfer. The amount of recoverable gold contained in in-process inventory is estimated based on the tonnes and grade of ore placed on the pad and metallurgical recoveries based on testing and ongoing monitoring of the rate of gold recoveries. Variations between actual and estimated quantities may result in a write-down of inventory if necessary to maintain a lower of average cost or net realizable value basis or a prospective adjustment to the basis of transferring in-process costs of production to dore.

(iii) Parts and supplies inventory is valued at the lower of average cost and replacement cost.

MINERAL PROPERTY, PLANT AND EQUIPMENT

A) Mineral property acquisition and mine development costs

The Company may hold interests in mineral properties in various forms, including prospecting licenses, exploration and exploitation concessions, mineral leases and surface rights. The costs of acquiring these interests are capitalized as mineral property acquisition costs.

Property acquisition and mine development costs are recorded at cost and amortized by the unit-of-production method based on estimated recoverable reserves. Pre-production expenditures are capitalized until the commencement of production. If it is determined that the capitalized costs related to a property are not recoverable over its productive life, those costs will be written down to fair value as a charge to operations in the period in which such determination is made.

Mine development costs incurred to expand operating capacity, develop new orebodies or develop mine areas in advance of current production are deferred and then amortized on a unit-of-production basis. Mine development costs for current production are charged to operations as incurred.

Interest and amortization of deferred financing charges on financing attributable to mine development is capitalized to mine development costs while construction and development activities at the property are in progress. When the property is placed into production, those capitalized costs are included in the calculation of the amortization of mine development costs.

Exploration expenditures on properties not advanced enough to identify their development potential are charged to operations as incurred. Expenditures incurred on non-producing properties identified as having development potential, as evidenced by a positive economic analysis of the project, are capitalized.

B) Plant and equipment

Plant and equipment are stated at cost less accumulated amortization. Plant and equipment are amortized on a unit-of-production basis over estimated recoverable reserves or on a straight-line basis over the estimated useful life of the asset, whichever period is lower.

MINERAL PROPERTY HELD FOR SALE

Mineral property held for sale is recognized at the lower of its carrying amount or of its fair value less cost to sell.

FOREIGN CURRENCY TRANSLATION

The United States dollar is the functional currency of the Company and its subsidiaries. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at rates of exchange prevailing in the transaction period, with the exception of amortization, which is translated at historical exchange rates. All exchange gains and losses are included in the determination of net income.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which include cash and highly liquid investments with original maturities of three months or less, are recorded at cost, which approximates fair value.

notes to consolidated financial statements

SHORT-TERM INVESTMENTS

Short-term investments include notes with an original maturity of one year or less. Short-term investments are recorded at cost, which approximates fair value. The Company invests with financial institutions with high credit quality.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK

The Company's financial instruments consist primarily of monetary assets and liabilities, the fair value of which approximate their carrying value due to the short-term nature of these instruments.

The Company enters from time to time into foreign exchange forward contracts to manage the Company's exposure to fluctuations in the Canadian and United States dollar foreign exchange rates. The Company also enters into spot deferred gold sales (forward transactions). These forward contracts are marked to market and recognized in the financial statements at their fair value.

INCOME TAXES

The Company accounts for future tax assets and liabilities using the liability method based on the temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their tax bases. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Such an allowance applies fully to all potential net income tax assets of the Company.

STOCK-BASED COMPENSATION

The Company has a stock-based compensation plan as described in note 15. The Company accounts for stock options using the fair value method. Under this method, compensation expense is measured at fair value on the date of grant using the Black-Scholes option pricing model and is charged as an expense or capitalized, depending on the nature of the grant, in the period the options are vested.

ASSET RETIREMENT OBLIGATIONS

The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. The fair value of the future liability for an asset retirement obligation is recognized in the period in which it is incurred with an offsetting amount being recognized as an increase in the carrying amount of the corresponding asset. This asset is amortized on a units-of-production basis over the estimated life of the mine while the corresponding liability accretes to its future value by the end of the mine's life. Fair value estimations are, however, subject to change based on negotiations with regulatory authorities and on changes in laws and regulations. Refer to note 13.

LOSS PER SHARE

Loss per share is calculated based on the weighted average number of common shares outstanding during the year. The diluted loss per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of the dilutive common share equivalents. This method requires that the dilutive effect of outstanding options, warrants and convertible debentures issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period. Diluted loss per share has not been disclosed since the exercise of options and warrants, and conversion of the convertible debenture would be anti-dilutive.

RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year presentation.

4. Short-Term Investments

At December 31, 2004, the Company's short-term investments consisted of a $15,000,000, 28-day term note that matured January 12, 2005, with an annualized yield of 2.278%, guaranteed by a Canadian chartered bank.

5. Amounts Receivable

	2005	2004
	$	$
Accounts receivable	405,520	112,117
Mexican value added tax recoverable	3,456,470	-
	3,861,990	112,117

6. Advances and Prepaid Expenses

	2005	2004
	$	$
Advances to contractors	1,639,708	1,666,895
Prepaid expenses	294,996	66,389
	1,934,704	1,733,284

7. Inventory

	2005	2004
	$	$
Precious metals dore	793,494	-
In-process precious metals	7,817,926	-
Parts and supplies	1,377,935	-
	9,989,355	-

notes to consolidated financial statements

8. Deferred Financing Charges

Costs incurred and allocated to the debt portion of the convertible debenture financing (note 12) are amortized over the five-year term of the debt. Costs incurred to establish the Company's bank loan facility (note 12) are amortized over the one-year term.

	2005	2004
	$	$
Convertible debenture	1,221,871	-
Bank loan	316,602	-
Less: accumulated amortization	(355,117)	-
	1,183,356	-

9. Mineral Property, Plant and Equipment

In 2003 the Company acquired a 100% interest in certain properties within the Salamandra group of concessions, which currently comprises approximately 21,300 hectares, in consideration for the payment of CDN$11,154,011 in acquisition costs and assigned expenses. Production from the acquired properties is subject to a sliding scale net smelter royalty on the first 2,000,000 ounces of gold production from certain concessions. The royalty commences at 1% when the price of gold is less than $300 per ounce, rising to 5% when the price of gold exceeds $400 per ounce.

Included within the Salamandra group of concessions is the Mulatos Mine. In June 2004, the Company completed a feasibility study on a portion of the Mulatos property known as the Estrella Pit Development. The Mulatos Mine began operations in 2005.

December 31	**2005**			**2004**		
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
	$	$	$	$	$	$
Mineral property and mine development	42,589,727	507,160	42,082,567	33,458,361	-	33,458,361
Mining plant and equipment	55,091,745	1,533,276	53,558,469	10,599,879	247,839	10,352,040
Assets under capital lease (note 11)	5,731,480	41,026	5,690,454	-	-	-
Office and computer equipment	243,093	60,505	182,588	114,262	23,722	90,540
	103,656,045	**2,141,967**	**101,514,078**	**44,172,502**	**271,561**	**43,900,941**

10. Mineral Property Held for Sale

The Company owns a 100% interest in the La Fortuna property ("La Fortuna"). La Fortuna is comprised of two mineral concessions, covering approximately 606 hectares, in Durango, Mexico. In 2000, La Fortuna was written-down to its estimated recoverable amount of $1 million.

Effective November 1, 2005, the Company entered into a letter agreement with Morgain Minerals Inc. ("Morgain") to sell its La Fortuna property for consideration of five million common shares of Morgain. Closing of the transaction is subject to completion of due diligence and the signing of a definitive agreement expected in the first quarter of 2006. As at March 3, 2006, the fair value of the share consideration to be received is approximately $2,000,000, based on the quoted price.

11. Capital Lease Obligations

During 2005, the Company entered into five leases with a financing company for mining equipment. The maximum term of each lease is five years, with payments totaling $99,204 per month over the term of the leases. The obligations under capital lease bear interest at LIBOR plus 4.1%. Minimum payments are $1,190,448 per annum for 2006 through 2010. The amount of interest expense related to the obligations under capital lease included in the determination of the loss for the year ended December 31, 2005 is $16,523 (2004 - nil). The Company has the right to repay the outstanding balance of the leases at any time.

12. Debt

CONVERTIBLE DEBENTURE

Effective February 2, 2005, the Company issued a CDN$50 million aggregate principal amount of 5.5% convertible unsecured subordinated debenture maturing on February 15, 2010. A 3.5% underwriters' fee was paid. The debenture bears interest at an annual rate of 5.5%, payable semi-annually in arrears on February 15 and August 15 of each year. The debenture is convertible into common shares at a rate of 188.6792 common shares for each CDN$1,000 principal amount of debenture. In certain circumstances, the debenture may be redeemed in whole or in part at the option of the Company after February 15, 2008.

The debenture is classified as a liability, with the exception of the portion relating to the conversion features, which is classified as an equity component, resulting in the carrying value of the debenture being less than its face value. The discount is being accreted over the term of the debenture, utilizing the effective interest rate method and the 12.6% interest rate implicit in the debenture.

At December 31, 2005, in accordance with the terms of the trust indenture, a trust account held CDN$1,375,000 plus accumulated interest (total $1,219,458) for payment of interest to debenture holders from August 16, 2005, to February 15, 2006. Subsequent to December 31, 2005, the Company made an additional payment to fund the trust account for interest payable for the period from February 16, 2006, to February 15, 2007, in the amount of CDN$2,750,000.

BANK LOAN

On July 21, 2005, the Company obtained a bank line of credit consisting of a $10 million unsecured one-year extendible revolving facility and a non-margin hedging line. Interest is payable at a rate of 2.75% above applicable LIBOR on the drawn portion of the facility and 0.75% on the undrawn portion. The initial term is for one year and may be extended at the discretion of the lender for two additional one-year terms. As at December 31, 2005, the Company was advanced $3 million related to this facility. On January 12, 2006, the Company was advanced an additional $3 million. On February 7, 2006, the bank agreed to increase the amount available to the Company under the line of credit to $16 million over the life of the facility.

notes to consolidated financial statements

13. Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred, on a discounted cash flow basis, if a reasonable estimate can be made. The liability accretes to its full value over time through charges to operations. In addition, the fair value is added to the carrying amount of the Company's mineral property, plant and equipment, and is amortized on a units-of-production basis over the life of the mine.

Continuity of asset retirement obligations for the 12-month period ended December 31, 2005:

	2005
	$
Obligations at January 1, 2005	50,000
Liabilities incurred	2,034,000
Accretion of discounted cash flows	16,000
Obligations at December 31, 2005	$2,100,000

The assumptions used in the determination of the asset retirement obligations are as follows:

	$
Estimated cost	4,264,255
End of mine life	2015
Discount rate	7.25%

14. Share Capital

a) Authorized share capital of the Company consists of unlimited common shares without par value.

	Number of Shares	**Amount**
		$
Outstanding at January 1, 2004	50,164,705	34,369,682
Placement of shares (less issue costs of $1,454,167)	10,000,000	21,120,895
Placement of shares (less issue costs of $1,404,585)	10,000,000	23,047,275
Exercise of stock options	752,398	554,176
Exercise of warrants	5,860,815	7,078,000
Outstanding at January 1, 2005	76,777,918	86,170,028
Exercise of stock options	192,500	237,315
Exercise of warrants	495,700	1,422,303
Outstanding at December 31, 2005	**77,466,118**	**87,829,646**

b) Stock options outstanding at December 31, 2005:

Number	Expiry Date	Exercise Price
		CDN$
210,000	December 23, 2010	6.35
980,000	June 2, 2010	3.73
375,000	December 16, 2009	3.50
850,000	June 25, 2009	2.25
90,000	February 12, 2009	2.75
410,000	December 23, 2008	6.35
883,500	December 9, 2008	2.50
557,483	July 23, 2008	1.13
320,000	June 2, 2008	3.73
50,000	January 30, 2008	0.76
150,000	July 22, 2007	1.00
330,000	June 25, 2007	2.25
150,000	June 3, 2007	1.16
5,355,983	**Weighted average exercise price**	**3.03**

Summary of stock option activity:

	Number	Weighted Average Exercise Price
		CDN$
Outstanding at January 1, 2004	2,650,881	1.50
Granted	1,725,000	2.55
Exercised	(752,398)	0.96
Expired	(20,000)	2.50
Outstanding at January 1, 2005	3,603,483	2.11
Granted	1,945,000	4.57
Exercised	(192,500)	1.48
Outstanding at December 31, 2005	5,355,983	3.03

Subsequent to December 31, 2005, 663,000 stock options were exercised at a weighted average exercise price of CDN$2.96.

c) Warrants outstanding at December 31, 2005 :

	Number	Expiry Date	Weighted Average Exercise Price
			CDN$
	350,000	July 21, 2007	5.80
	4,404,300	April 8, 2006	3.50
	4,754,300	**Weighted average exercise price**	**3.67**

Summary of warrant activity:

	Number	Weighted Average Exercise Price
		CDN$
Outstanding at January 1, 2004	5,775,699	1.50
Issued	5,000,000	3.50
Exercised	(5,875,699)	1.57
Outstanding at January 1, 2005	4,900,000	3.50
Issued	350,000	5.80
Exercised	(495,700)	3.50
Outstanding at December 31, 2005	**4,754,300**	**3.67**

Subsequent to December 31, 2005, 2,134,300 warrants were exercised at a weighted average exercise price of CDN$3.50.

In conjunction with the closing of a line of credit on July 21, 2005, the Company issued 350,000 two-year warrants to the lender at an exercise price of CDN$5.80 per share. The warrants were valued using the Black Scholes option pricing model, a stock price on the date of issue of CDN$4.45, an exercise price of CDN$5.80, an expected life of two years, a risk-free interest rate of 3.75%, an expected volatility of 50% and an expected dividend yield of 0%. The value of the warrants was capitalized to deferred financing charges and is amortized over the initial one-year term of the credit facility.

15. Stock-based Compensation

The Company has a stock option plan, originally approved by the Board of Directors (the "Board") on April 17, 2003, to allow the Company to grant incentive stock options to its directors, officers, employees and consultants. At the Company's annual general meeting held on May 24, 2005, the shareholders of the Company approved an amendment to the Company's stock option plan. Under the amended stock option plan, the number of shares reserved for issuance cannot exceed 10% of the total number of shares that are outstanding on the date of grant. The exercise price, term (not to exceed ten years) and vesting provisions are authorized by the Board at the time of the grant.

During the 12-month period ended December 31, 2005, the Company granted incentive stock options to its directors, officers and employees to purchase up to a total of 1,945,000 common shares in the capital of the Company at a weighted average exercise price of CDN$4.57 per share. The options granted to directors and officers are exercisable for a five-year period, and options granted to employees are exercisable for a three-year period. Vesting terms for each option grant are authorized at the discretion of the Board. Of the 1,945,000 stock options granted during 2005, 1,325,000 vested immediately on grant, 160,000 vest over a nine-month period and 460,000 vest over a two-year period.

The Company has determined the fair value of stock-based compensation and allocated it as follows, depending on the nature of the grant:

December 31	**2005**	**2004**
	$	$
Mineral property, plant and equipment	151,000	225,388
Stock-based compensation expense	1,142,000	943,965
Total	**1,293,000**	**1,169,353**

No cash is transferred upon the granting of stock options. The Company credits its contributed surplus account for the value of the grant.

The fair value of stock options granted is estimated using the Black Scholes option pricing model with the following assumptions:

December 31	**2005**	**2004**
Risk-free rate	3.75%	3.5%
Expected dividend yield	nil	nil
Expected stock price volatility	50%	55%
Expected option life, based on term of the grant (months)	24	18–30

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate, and therefore it is management's view that the existing models may not provide a single reliable measure of the fair value of the Company's stock option grants.

16. Related Party Transactions

A director of the Company was paid $69,440 during the year ended December 31, 2005, for management and administrative services pursuant to a monthly services contract. In 2004, $475,723 was paid (including a bonus of $249,000) to two directors and officers of the Company through consulting or employment arrangements for management, investor relations and administrative services. These transactions have occurred in the normal course of operations and are measured at their fair value as determined by management.

notes to consolidated financial statements

17. Segmented Reporting

The Company operates in one business segment, the exploration, mine development and extraction of precious metals, primarily gold, in two geographic areas, Canada and Mexico.

December 31	2005	2004
	$	$
Assets, by geographic segment (at amortized cost)		
Mexico	119,952,652	47,781,884
Canada	6,247,817	27,102,559
	126,200,469	**74,884,443**

Year ended December 31			2005
	Mexico	Canada	Total
	$	$	$
Revenues	2,726,391	-	2,726,391
Loss	2,135,478	7,311,078	9,446,556

Year ended December 31			2004
	Mexico	Canada	Total
	$	$	$
Revenues	-	-	-
Loss	1,495,849	3,270,966	4,766,815

18. Loss per Share

Loss per share has been calculated using the weighted-average number of shares outstanding during the year of 77,179,619 (2004 – 62,202,713). Diluted loss per share has not been disclosed as it is anti-dilutive.

19. Income Taxes

The reconciliation of the expected tax recovery at the statutory rate and provision for income tax recovery is:

December 31	2005	2004 (restated)
	$	$
Loss before income taxes	9,446,556	4,766,815
Expected tax recovery at statutory income tax rate	3,400,000	1,650,000
Increase (decrease) resulting from:		
Difference in foreign tax rates	200,000	(30,000)
Financing charges	-	150,000
Non-deductible accretion expense	(500,000)	-
Non-deductible stock-based compensation expense	(400,000)	(340,000)
Foreign exchange net taxable gains	(1,600,000)	-
Inflation net taxable gains	(700,000)	-
Other	(100,000)	60,000
Valuation allowance	(300,000)	(1,490,000)
Income tax recovery	-	-

The following information summarizes the principal temporary differences and the related future tax effect:

December 31, 2005	**Canada**	**Mexico**	**Total**
	$	$	$
Future tax assets			
Non-capital losses	5,148,000	10,904,000	16,052,000
Financing charges	1,332,000	-	1,332,000
Valuation allowance	(4,468,000)	(119,000)	(4,587,000)
	2,012,000	10,785,000	12,797,000
Future tax liabilities			
Inventory	-	(2,432,000)	(2,432,000)
Mineral property, plant and equipment	(2,012,000)	(8,353,000)	(10,365,000)
Net future tax liabilities	**(2,012,000)**	**(10,785,000)**	**(12,797,000)**

December 31, 2004 (restated)	**Canada**	**Mexico**	**Total**
	$	$	$
Future tax assets			
Non-capital losses	3,450,000	2,940,000	6,390,000
Financing charges	1,080,000	-	1,080,000
Valuation allowance	(4,070,000)	(1,670,000)	(5,740,000)
	460,000	1,270,000	1,730,000
Future tax liabilities			
Mineral property, plant and equipment	(460,000)	(1,270,000)	(1,730,000)
Net future tax liabilities	-	-	-

Non-capital losses available in Canada to be utilized in subsequent years are $14 million expiring between 2006 and 2015. Losses in Mexico amount to approximately $38 million and expire over a 10-year period.

notes to consolidated financial statements

20. Commitments and Contingencies

During 2005, the Company entered into capital leases as fully described in note 11. As at December 31, 2005, the future minimum lease payments under capital lease were:

Year	Capital lease payments
	$
2006	1,190,448
2007	1,190,448
2008	1,190,448
2009	1,190,448
2010	1,190,448
	5,952,240
Less: imputed interest	(1,145,936)
	4,806,304

At December 31, 2005 the Company had contracts to acquire $16 million Canadian dollars in May 2007 and $10 million Canadian dollars in the first quarter of 2006. The marked-to-market value of these foreign exchange forward contracts was a gain of $1,060,000 at December 31, 2005.

The Company had outstanding gold forward contracts to sell 2,000 ounces of gold in January 2006. These contracts were not designated as hedges at inception. The marked-to-market value of these contracts was a loss of $93,600 at December 31, 2005.

Production royalties, on a sliding scale to the price of gold, at 5% of gold revenue with gold above $400 per ounce, are a contractual obligation once commercial production (as defined in the agreement) is attained, but cannot reasonably be estimated as they are a function of the price of gold and production rate, neither of which can be ascertained with any certainty.

21. Differences between Canadian and United States Generally Accepted Accounting Principles (GAAP)

These consolidated financial statements have been prepared in accordance with Canadian GAAP. Material variations in the accounting principles, practices and methods used in preparing these consolidated financial statements from principles, practices and methods accepted by United States GAAP ("U.S. GAAP") are described and quantified below.

MINERAL PROPERTY, PLANT AND EQUIPMENT

U.S. GAAP requires that exploration and development costs on mineral properties prior to the completion of a definitive feasibility study, which establishes proven and probable reserves, be expensed as incurred. Under Canadian GAAP, these costs may be deferred when certain criteria are met. In 2005, the Company changed its accounting policy under Canadian GAAP such that exploration expenditures on properties not advanced enough to identify their development potential are charged to operations as incurred. The Company completed its feasibility study on the Mulatos project in June 2004. All exploration and development expenditures related to the Mulatos project incurred prior to June 2004 of $22,879,785 have been expensed for U.S. GAAP purposes.

Since the mineral property, plant and equipment subject to units of production amortization under U.S. GAAP is lower than under Canadian GAAP, the application of U.S. GAAP results in lower amortization expense and lower amortization capitalized to inventory.

CONVERTIBLE DEBENTURES

Under Canadian GAAP, the liability and equity components of the convertible debenture are determined and separately classified on the consolidated balance sheet. The liability component represents the present value of the interest and principal payments on the debenture and the equity component represents the fair value of the holder's conversion feature. The stated interest payments and accretion expense from adjusting the time value of the principal of the debenture over time are presented separately in the consolidated statements of operations. Deferred financing charges are separately classified between liability and equity on the same basis.

Under U.S. GAAP, convertible debt instruments are classified as debt until such time as they are converted to equity. Accordingly, for U.S. GAAP purposes, the convertible debenture is presented on the consolidated balance sheet as a liability. No accretion expense is recognized and no deferred financing charges are allocated to equity.

The following items (a) to (e) are inclusive of the impact on line items in these consolidated financial statements that would result substantially from the application of U.S. GAAP to the convertible debenture, mineral property, plant and equipment and deferred financing charges.

December 31	**2005**	**2004** (restated)
	$	$
a) CONSOLIDATED BALANCE SHEET ASSETS		
Deferred financing charges		
Deferred financing charges under Canadian GAAP	1,183,356	-
Add: unamortized portion of deferred financing charges capitalized under U.S. GAAP	338,933	-
Deferred financing charges under U.S. GAAP	**1,522,289**	**-**
Mineral property, plant and equipment		
Mineral property, plant and equipment under Canadian GAAP (note 9)	101,514,078	43,900,941
Less: mineral property, plant and equipment expensed under U.S. GAAP	(22,879,785)	(22,879,785)
Add: accumulated amortization not recorded under U.S. GAAP	508,541	
Less: convertible debenture accretion capitalized under Canadian GAAP	(178,980)	-
Mineral property, plant and equipment under U.S. GAAP	**78,963,854**	**21,021,156**

December 31	2005	2004 (restated)
	$	$
Mineral property held for sale		
Mineral property held for sale under Canadian GAAP	1,012,538	1,010,638
Less: mineral property held for sale expensed under U.S. GAAP	(1,012,538)	(1,010,638)
Mineral property held for sale under U.S. GAAP	**-**	**-**
LIABILITIES		
Convertible debenture		
Convertible debenture under Canadian GAAP	33,325,939	-
Add: equity component of convertible debenture under Canadian GAAP	9,983,025	-
Add: deferred financing charges related to equity component under Canadian GAAP	416,000	-
Add: foreign exchange on convertible debenture under U.S. GAAP	2,578,701	-
Less: accretion expense and capitalized accretion under Canadian GAAP	(1,451,105)	-
Less: foreign exchange on convertible debenture under Canadian GAAP	(1,967,560)	-
Convertible debenture under U.S. GAAP	**42,885,000**	**-**
b) OPERATIONS		
Loss under Canadian GAAP	(9,446,556)	(4,766,815)
Mineral property, plant and equipment expensed under U.S. GAAP	-	(5,428,555)
Mineral property held for sale expensed under U.S. GAAP	(1,900)	
Amortization expense lower under U.S. GAAP	148,245	-
Accretion expense on convertible debenture under Canadian GAAP	1,272,125	-
Additional deferred financing charges under U.S. GAAP	(77,067)	-
Additional foreign exchange loss on convertible debenture under U.S. GAAP	(611,141)	-
Loss under U.S. GAAP	**(8,716,294)**	**(10,195,370)**
Loss per share under U.S. GAAP	**(0.11)**	**(0.16)**

December 31	2005	2004 (restated)
	$	$
c) DEFICIT		
Closing deficit under Canadian GAAP	(23,602,496)	(14,155,940)
Adjustment to deficit for mineral property, plant and equipment costs expensed under U.S. GAAP	(22,731,540)	(22,879,785)
Adjustment to deficit for mineral property held for sale expensed under U.S. GAAP	(1,012,538)	(1,010,638)
Adjustment to deficit for difference in accounting for convertible debenture under U.S. GAAP	583,917	-
Closing deficit under U.S. GAAP	**(46,762,657)**	**(38,046,363)**
d) CASH FLOWS – OPERATING ACTIVITIES		
Cash used for operations under Canadian GAAP	(12,675,226)	(3,251,092)
Mineral property, plant and equipment expensed under U.S. GAAP	-	(5,428,555)
Non-cash deferred expenditures expensed under U.S. GAAP	-	225,388
Cash used for operations under U.S. GAAP	**(12,675,226)**	**(8,454,259)**
e) CASH FLOWS – INVESTING ACTIVITIES		
Cash applied to investments under Canadian GAAP	(42,919,405)	(42,721,921)
Add: mineral property, plant and equipment expensed under U.S. GAAP	-	5,203,168
Cash applied to investments under U.S. GAAP	**(42,919,405)**	**(37,518,753)**

corporate governance

CORPORATE GOVERNANCE

Corporate governance plays a vital role in the development and successful operation of any company. Strong and effective corporate governance practices have been a priority for Alamos since its inception. Our internal policies and procedures have evolved and grown with the Company. We believe that Alamos's current corporate governance practices are fundamental to the Company's continued success. We have taken, and will continue to take, strong steps to ensure our compliance with regulatory requirements and suggested guidelines of Canadian and U.S. securities regulatory agencies. During 2005, the Company significantly strengthened its Board of Directors and Audit Committee with the addition of two new independent and highly qualified directors.

THE BOARD OF DIRECTORS ("BOARD") OF THE COMPANY

- Is composed of a majority of independent directors
- Approves the Company's strategy, business plans and any significant investing or divesting activities
- Evaluates its effectiveness on an annual basis
- Reviews the CEO's performance and objectives annually
- Has approved a set of Corporate Governance Guidelines to promote the effective functioning of the Board and all of its committees
- Has adopted a Code of Business Conduct and Ethics that is applicable to all directors, officers and employees of Alamos Gold Inc

All committees of the Board are composed of a majority of independent directors. In addition, directors have access to outside advisors at the Company's expense.

Alamos also has a disclosure policy to ensure that the Company's stakeholders are informed of significant developments in an accurate and timely manner.

Copies of the Corporate Governance Guidelines, the Code of Business Conduct and Ethics and the mandates of each of the committees of the Board, including the Audit Committee, the Compensation and Nominating Committee and the Corporate Governance Committee, have been filed on SEDAR, and they are available under the company's name at www.sedar.com.

and committees of the board

Below is a summary of our committee structure and membership information. To read more about any of the committees, please visit our website at www.alamosgold.com.

● Chairperson ● Member

	Audit Committee	Compensation Committee	Corporate Governance Committee	Independent Committee	Technical, Environmental, Social and Employees' Health and Safety Committee
Leonard Harris					● Member
Alan R. Hill		● Member		● Chairperson	● Member
Richard W. Hughes		● Chairperson		● Member	
James McDonald	● Member		● Member	● Member	
Brian W. Penny	● Chairperson	● Member			
Mark Wayne	● Member		● Chairperson		

corporate information

Board of Directors and Committees

Leonard Harris [5]
Director

Alan R. Hill [2, 4, 5]
Chairman

Richard W. Hughes [2, 4]
Director

John A. McCluskey
President, Chief Executive Officer & Director

James M. McDonald [1, 3, 4]
Director

Mark Wayne [1, 3]
Director

Brian W. Penny [1, 2]
Director

1 *Audit Committee*
2 *Compensation and Nominating Committee*
3 *Corporate Governance Committee*
4 *Independent (Special) Committee (Re: Shareholders Rights Plan)*
5 *Technical, Environmental, Social and Employees' Health and Safety Committee*

Shareholder Information

Shareholders requiring information on lost certificates, transferring shares, change of address, or canceling duplicate mailings should contact Alamos' transfer agent:

PACIFIC CORPORATE TRUST COMPANY

510 Burrard Street, 2nd Floor
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2006 ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of Alamos Gold Inc. will be held at 4:30 pm on Tuesday, May 24, 2006, at the TSX Gallery - Conference Centre, located at street level at 130 King Street West, Toronto, Ontario, Canada.

INVESTOR RELATIONS CONTACT

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STOCK EXCHANGE LISTING

Stock Symbol:	**AGI**
Exchange:	**TSX**
Convertible Debentures Symbol:	**AGI.DB**
Exchange:	**TSX**

shareholder information

Corporate Data

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MANAGEMENT AND OFFICERS

John A. McCluskey	*President and C.E.O.*
Jon Morda	*Chief Financial Officer*
John F. Van De Beuken	*Vice President and Chief Operating Officer*
Ken Balleweg	*Vice President of Exploration*
Sharon L. Fleming	*Corporate Secretary*
Michael Carter	*Mine Manager*
Jamie Porter	*Controller*

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