Alamos Gold Inc.

2006 Annual Report

commitment

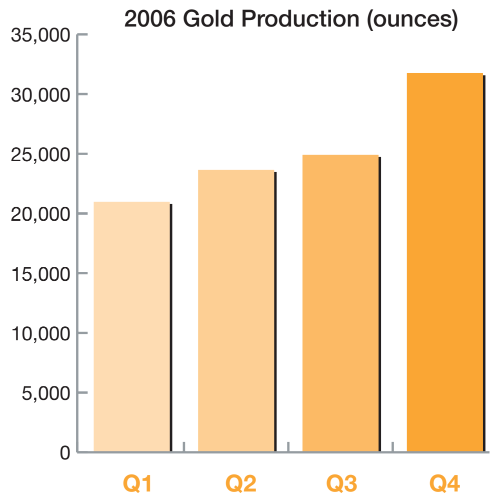
corporate profile

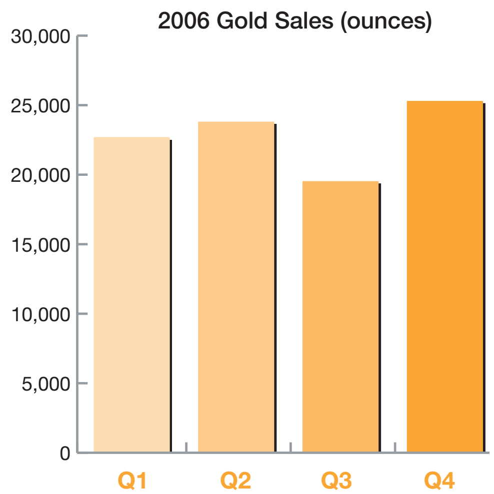
Alamos Gold Inc. (TSX:AGI) was formed in February 2003 and moved quickly to become an intermediate gold producer with operations in Mexico. The Company has ambitious plans for growth through mine expansion, new production from the Escondida area, reserve expansion, and an aggressive and innovative exploration program. The Company is committed to accomplishing this while maintaining a strong balance sheet and ensuring that growth occurs in a reasonable, responsible and rational manner.

contents

Cover: *This year's cover is dedicated to Alamos Gold director Leonard Harris. We congratulate Mr. Harris as the recipient of the Mining and Metallurgical Society of America's Gold Medal in recognition of his contribution to the mining industry and commitment to the communities, environment and economic growth of the countries in which he has worked.*

Note: *All dollar amounts contained in this report are expressed in U.S. dollars.*





2006 achievements

Announced commercial production at the Mulatos Mine in Sonora, Mexico on April 1st

Produced 101,170 ounces of gold at a cash operating cost of $294 per ounce of gold sold

Recognized earnings before income taxes and conversion of convertible debentures of $3.1 million or $0.04 per share

Achieved production rates of 50% above Feasibility Study levels or 15,000 tonnes of crushed ore per day

Invested $8.4 million in exploration activities resulting in increasing global resources to 3.4 million ounces

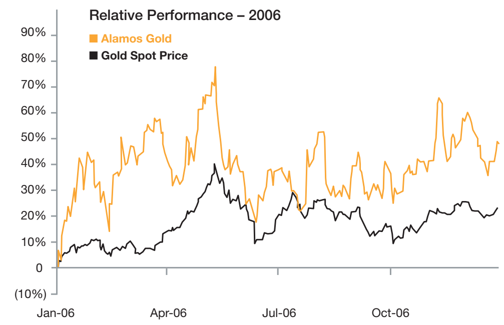
Identified new gold mineralization in the San Carlos and the Gap areas

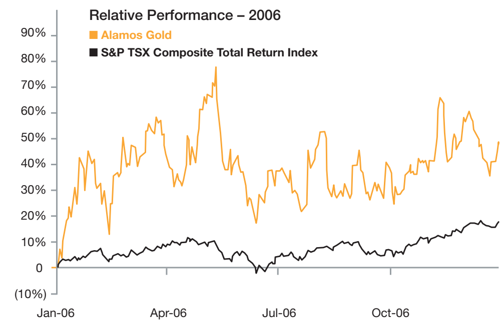
Strengthened the Company’s balance sheet by reducing the CDN $50 million convertible debenture obligation by 97% to CDN $1.5 million with an induced early conversion in June 2006

Reinforced our partnership with the local community by continuing to provide education, health care and social benefits

2007 goals

1	Produce 150,000 ounces of gold at a declining cash cost
2	Select a production alternative for Escondida
3	Report resources at El Victor and develop resources at the El Gap and San Carlos areas
4	Optimize mining operations to increase crusher throughput and realize potential cost savings
5	Continue to operate in accordance with environmental protection and health and safety programs
6	Identify accretive acquisition opportunities





message to shareholders

The year in review saw the achievement of a significant milestone, one that shareholders, management and employees of Alamos Gold can celebrate. Alamos Gold became one of only a handful of junior exploration companies to make a successful transition to commercial production.

Building the mine was a formidable project given the challenging logistics involved in establishing a large-scale mining operation in a remote region of the Sierra Madre in Mexico. The mine was completed on time and on budget through the efforts of our consulting engineers at M3 Engineering, external contractors and Alamos personnel.

After a 15-month construction period, we declared commercial production on April 1, 2006. This point is defined in contract with the royalty holders that specified this threshold once production throughput achieved a 60% run rate. A further objective set for the year was to increase the designed throughput capacity of the mine by 50% to 15,000 tonnes per day, a level that was achieved by year-end. This expansion was financed through existing cash and cash flow.

With $3.1 million in earnings before tax, the Company ended its first year of production on sound financial footing. Operations generated $18.1 million in cash flow before working capital change. An offer was made to the holders of convertible debentures for early conversion of up to $50 million in convertible debt. This offer was successful as 97% of the debt was retired under the plan, leaving the Company virtually debt-free.

Production exceeded 100,000 ounces of gold this year. While this is a significant start, production fell below forecast, which was based on feasibility assumptions, projections of increased crushing capacity and mine planning. The mine endeavored to have the crushing line increase throughput to expansion capacity at the fine crush size specified in the Feasibility Study. This took longer to achieve than planned but by year-end, the crushing operations began to meet performance objectives.

message to shareholders

There is a variety of mineralized material within the Estrella Pit, including that which does not provide enough gold recovery through heap leaching to be classified as ore. The ore to waste boundary in the pit varies as much with recovery as it does with grade. In the latter half of 2006 operations mined a zone on the south boundary of the pit that ultimately yielded low recovery rates. This caused a shortfall in production that affected the fourth quarter and will impact the first quarter of 2007 as well.

As a result, the mine plan will begin a shift in the second quarter of 2007 to the ore reserves in the northern portion of the pit where there is more detailed definition of the ore blocks. By concentrating on this area, we are expecting to achieve higher recovery from the ore. This will also allow time to examine the south zone in order to more clearly define the mineralization characteristics.

A study is underway for constructing a milling facility at Mulatos, primarily driven by the discovery of high-grade, coarse, native gold in the Escondida Zone. There is sufficient mineralization at Escondida alone to justify the installation of a mill. However, the mine is also considering the economics of streaming higher-grade material from the Estrella deposit through a milling circuit. It will be determined if higher-grade material from Estrella would yield better and faster recovery through milling rather than heap leaching. The Estrella Pit contains over 600,000 ounces of gold at a 2.5-gram cut-off grade that may prove suitable for milling. Results from this study are expected by mid-year.

Exploration has produced exciting results this year and these are well summarized in this report. Highlights include the delineation of the Escondida Hanging Wall Zone and Main Zone. While resources were increased by over 70% in this area, it is the opinion of Alamos geologists that the nugget effect in the Hanging Wall Zone is likely leading to an understatement of the grade of this resource. Further work will be conducted in 2007, including the processing of a 20-tonne bulk sample, in order to obtain a more accurate representation of the true grade of the deposit.

The El Victor Zone saw a large drilling campaign with over 130 core and reverse circulation drill holes drilled from surface and underground stations. The data from this program is being compiled and will be the subject of an engineering study to estimate new resources in 2007.

Looking ahead, exploration will remain a high priority for Alamos Gold. We have consistently invested in exploration in this prospective district and the results have been well worth the effort. Development drilling has been completed in three additional zones along the trend north of the Estrella ore body, with significant resource additions to date.

We have further work planned along this trend in 2007 and on other targets within our 28,500-hectare mineral claim holdings. The Mulatos district is one of the largest alteration systems in Mexico and is truly world class in stature. We are confident that it will yield more discoveries as exploration continues.

"Looking ahead, exploration will remain a high priority for Alamos Gold. We have consistently invested in exploration in this prospective district and the results have been well worth the effort. Development drilling has been completed in three additional zones along the trend north of the Estrella ore body, with significant resource additions to date."

message to shareholders

"The mining industry in Mexico is going through a period of growth and discovery motivated by higher metal prices to be sure, but sustained by policies that are clearly in place to develop what the world recognizes to be a tremendous geological potential. The driving force behind realizing this potential is the risk capital employed in exploration."

Alamos Gold is at the forefront of an industry rush into Mexico. There are many companies, more exploration expenditures and more mine development projects than at any other time in Mexico's history. This is happening at a time when gold and other metals are trading at prices that encourage this activity.

The gold industry is going through a period that is at once challenging and rewarding. Seldom has the gold price experienced such a consistent and sustained rise in price. Alamos Gold is selling its production at margins far above what was envisioned in the Feasibility Study. The gold price has seen periods of short-term volatility but over the past five years, the trend is clearly intact. Some of the conditions that have supported the rise in price have changed, but the fundamentals remain positive.

Much of the daily gold trading in response to news headlines appears to be motivated by short-term speculation rather than a deeper concern for the direction in which the world is heading. Real wealth takes a longer view and those accumulating gold as insurance in uncertain times are planning their buying more thoughtfully. There is a trend that indicates a shift in ownership of gold away from central banks and into the hands of individuals. Central bank holdings are near historic lows. Meanwhile exchange-traded funds and laws that permit individual gold ownership throughout the world are making it easier for individuals to purchase gold today than ever before. We see this shift in ownership as a positive for gold.

Demand for gold as jewelry is at an historic high. With the growth of the middle class in India and China, this increase is bound to continue as the wealth and demographic of these populous nations evolve.

Those that produce gold are enjoying the benefits of higher prices, but these are also challenging times. Rising prices of energy and consumables have put upward pressure on costs across the board. The industry remained depressed for such a long period that it was ill prepared for a turnaround. Mine development and operations are dependent upon skilled labor, engineers, geologists, machinery, parts and more, all of which are still in short supply. Dealing with shortages and higher cost components is a basic reality that must be addressed with increased productivity.

The mining industry in Mexico is going through a period of growth and discovery motivated by higher metal prices to be sure, but sustained by policies that are clearly in place to develop what the world recognizes to be a tremendous geological potential. The driving force behind realizing this potential is the risk capital employed in exploration. This capital is being directed at Mexico like never before. We believe this will continue so long as the government policies are supportive. Indeed, the mining laws of Mexico are fair and we have found the regulatory framework to be straightforward and the permitting process efficient.

However, Mexico is not without its problems and we see specific issues that government must eventually address. Drugs and drug-related crime are escalating problems within the country. Cultivation of marijuana is a specific concern in our district, and in many other parts of Mexico. Exploration activity is carried out in proximity to illegal growing operations, creating

message to shareholders

potentially dangerous situations that our employees must face on an ongoing basis. Owners of large tracts of land are often unwilling to enter into surface access agreements in order to keep their activities hidden. This situation must be addressed. The mines of tomorrow will not be found if the work required today is not undertaken.

The Company continues to work constructively with the small communities in the region where we operate. The mine has brought change and while the economic impact has been clearly positive, some of the changes present ongoing challenges. We are sensitive to the concerns of local residents and we will endeavor to assist these communities in a constructive way through this ongoing transition.

Alamos Gold is committed to conducting business in Mexico as a progressive member of the community. We are training employees at all levels that we envision will run the mines of the future. We are encouraging students to take an interest in the mining industry and we are doing more to encourage scholarship and the pursuit of education beyond high school. Modern mining operations require skilled laborers and professionals; Alamos Gold is helping to raise awareness of these opportunities.

Our overall experience in Mexico as an explorer, developer, and now operator has been a positive one. The government, at all levels, supports the industry and recognizes the positive benefits it brings. Economic development, local employment and taxes go a long way in contributing to the economic well-being of the country.

message to shareholders

A producing gold mine is a relatively uncommon thing in the world and it is likely to stay that way. A gold deposit is simply not that easy to find. With rare exceptions, gold mines are difficult to bring to production and are ultimately short-lived. Even the industry giants struggle to replace reserves. Alamos Gold is fortunate to have a place in this small industry and we are well aware of the challenges that confront us. We are working diligently to develop resources and replace reserves. We have had success in recent years and have been able to replace more than we have mined. For the long term, we are cultivating a pipeline of exploration projects within the district where we operate to provide for future production.

Due to increasing responsibilities as a CEO, Alan R. Hill will be stepping down from his position as Chairman of the Board of Directors for the Company at the forthcoming Annual General Meeting. On behalf of the Board, I wish to thank Alan for the significant contribution he has made to Alamos Gold during his tenure as a director. Alan Hill has the deserved reputation as one of the pre-eminent mining engineers and mine developers in the industry and his contribution to the Company during the construction and start-up of the Mulatos project was most valuable. We wish him well in his future endeavors.

On behalf of the Board of Directors, management and employees of Alamos Gold, I would like to thank you, our shareholders for your support and good faith throughout the year. On your behalf we have continued to strengthen our operating team which we see as the foundation of a well run and profitable mine. This is the driving force in our view for delivering shareholder value. The operation of the Mulatos Mine and the exploration of this large district are responsibilities we assume with a sense of pride and commitment.

We are ready for the challenges that lie ahead.

John A. McCluskey
President and Chief Executive Officer
April 20, 2007

reserves and resources

as at December 31, 2006

Mineral Reserves (Proven and Probable)[1,2]

	Proven			Probable			Proven and Probable		
Property	Tonnes (000)	Grade (g/t Au)	Ounces (000)	Tonnes (000)	Grade (g/t Au)	Ounces (000)	Tonnes (000)	Grade (g/t Au)	Ounces (000)
Estrella	6,045	1.82	354	25,855	1.60	1,329	31,900	1.64	1,683
Escondida	863	3.97	110	2,762	1.38	122	3,625	1.99	232
El Salto/Mina Vieja	543	1.10	19	3,654	1.04	123	4,197	1.05	142
Total	**7,451**	**2.02**	**483**	**32,271**	**1.52**	**1,574**	**39,722**	**1.61**	**2,057**

Notes to the Reserves and Resources Tables:

(1) Unless otherwise noted, the Company's reserves are estimated using appropriate cut-off grades ranging from 0.4 g/t Au to 0.9 g/t Au derived using an estimated gold price of US$500 per ounce. Reserves are estimated using projected life-of-mine operating costs and gold recovery assumptions.

(2) The Company's reserves and resources as at December 31, 2006 are classified in accordance with the Canadian Institute of Mining Metallurgy and Petroleum's "CIM Standards on Mineral Resources and Reserves, Definition and Guidelines" as per Canadian Securities Administrator's National Instrument 43-101 ("NI 43-101") requirements.

(3) Mineral resources (Measured and Indicated) include Mineral Reserves.

(4) Mineral resources represent the Mulatos project area, excluding Gap, El Victor and San Carlos.

These figures are estimates, however and no assurance can be given that the indicated amounts of quantities of gold will be produced. Gold price fluctuations may render mineral reserves containing relatively lower grades of gold mineralization uneconomic. Moreover, operating factors relating to the mineral reserves could affect the Company's profitability in any particular accounting period.

Forward-Looking Statements:

Please refer to Management's Discussion and Analysis.

reserves and resources

as at December 31, 2006

Mineral Resources (Measured and Indicated)[2,3,4]

Au	Measured Resource			Indicated Resource			Total M + I Resource		
Cut-off (g/t)	Tonnes (000)	Grade (g/t Au)	Ounces (000)	Tonnes (000)	Grade (g/t Au)	Ounces (000)	Tonnes (000)	Grade (g/t Au)	Ounces (000)
2	1,997	3.81	245	8,452	3.72	1,012	10,449	3.74	1,257
1.5	3,125	3.06	307	14,259	2.90	1,331	17,384	2.93	1,638
1	5,510	2.26	400	27,889	2.07	1,860	33,399	2.10	2,260
0.7	8,329	1.78	476	47,274	1.56	2,378	55,603	1.60	2,854
0.5	11,569	1.45	538	74,803	1.21	2,899	86,372	1.24	3,437
0.3	15,876	1.16	592	117,738	0.91	3,435	133,614	0.94	4,027
0	19,714	0.97	614	212,188	0.56	3,821	231,902	0.59	4,435

Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Resources:

This report uses the terms “Measured”, “Indicated” and “Inferred” Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. “Inferred Mineral Resources” have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. Investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of a Mineral Resource is economically or legally mineable. The extent to which Mineral Resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery.

operations

In 2006, Alamos Gold completed construction and commissioning of the Mulatos Mine, and commenced commercial production. In 2007, its first full year of commercial operation, the Mine is projected to produce 150,000 ounces of gold.

Location: The Mulatos deposit is located 220 kilometers east of Hermosillo in Sonora, Mexico, at an elevation of 1,400 meters above sea level.

Geology: The Mulatos deposit 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.

2006 Review

The Mine began operations on a run-of-mine basis in 2005 and continued into the first quarter of 2006 before the crushing circuit was completed. The crushing circuit achieved steadily improving efficiencies and throughput in 2006. Commercial production at the Mine was announced on April 1, 2006. The Mine continued to optimize operations, resulting in increasing gold production in each quarter of the year. The Company produced a record 31,700 ounces of gold in the fourth quarter and 101,170 ounces of gold for the year.

The crusher and plant were both designed to process higher rates of production than the 10,000 tonnes of ore per day ("tpd") specified in the Feasibility Study. A decision was made to increase throughput to 15,000 tpd to take advantage of this capacity. Significant capital investments in 2006 included the purchase of new trucks and loaders, expansion of the leach pad area and increasing the water capacity in order to support the Mine expansion. Crushing production improved through the second quarter and the Company achieved intermittent Phase 2 processing levels of 15,000 tonnes of

operations

crushed ore per day during the third and fourth quarters. The Mine continues to focus on improving crush size and throughput.

Production for the year was 101,170 ounces of gold, slightly below the Company's forecast 2006 gold production of 110,000. Gold recoveries in the last half of 2006 were below expectations resulting in a shortfall in production of approximately 10,000 ounces. This prompted the Company to conduct a detailed review of the ore block model with respect to ore types and metallurgical testing results.

As a result of this review, the Company identified that the area of the pit mined during the second half of 2006 contained low recovery material. A significant portion of this material was high-grade and made excellent overliner for leach pad expansion. Initial recovery tests of this material indicated low to adequate recoveries, and the decision was made to stack this material on the leach pad. Subsequent testing and analysis confirmed that this material, although high-grade, had very low recovery, and should not have been stacked on the leach pad as ore.

The majority of this low recovery material was not classified as ore in the Feasibility Study. Accordingly, there has been a minimal effect on the Company's proven and probable reserves and blast hole to block model reconciliations show a 1% project-to-date positive variance when excluding the low recovery material. Another area of the pit (deep in the north end) with similar characteristics to this low recovery material is expected to be encountered towards the end of the mine life. This area is not expected to be mined for several years, and the Company does not anticipate that this area is of sufficient size to have a material impact on future production or on the Company's reserves.

Significant milestones were achieved in 2006. Mining costs per tonne of waste and ore mined, and processing costs per tonne of ore were consistent with Feasibility Study levels even though the cost of key consumables such as diesel, drill bits and hammers, lime and cyanide costs increased considerably since the Feasibility Study was prepared in June of 2004. Crushing and conveying and administration costs were higher than specified in the Feasibility Study. The Company's continuous improvement efforts are expected to reduce these costs over time. While cash operating costs of $294 per ounce of gold was higher than the Feasibility Study, higher average gold price of $599 netted a realized cash margin of $281 per ounce.

Outlook

The issues encountered in the latter part of 2006 have adversely affected gold production in the first quarter of 2007. Nonetheless, the Company plans to increase production by approximately 50% in 2007 to 150,000 ounces of gold.

The outlook for the Mulatos Mine continues to be positive. Several changes have been implemented in recent periods which are expected to improve mining operations throughout 2007 and beyond. Recovery testing and ore identification procedures have been enhanced in order to eliminate past issues. Bottle roll capacity and other testing equipment and facilities have also been added to improve the Company's ability to optimize gold recovery.

operations

An additional fine crusher is being installed to ensure that the crusher discharge is to Feasibility Study specifications and to increase crusher capacity beyond 15,000 tonnes of crushed ore per day. Crush size is critically important to gold recovery levels and independent consultants have reviewed operations to optimize the efficiency of the crushing and leaching processes.

The leach pad is being expanded to near final Feasibility Study size specifications during 2007 making leaching cycle conditions ideal. Leach pad lift height is being increased from 5 meters to 7 meters and solution management is changing to increase pregnant solution grade. Work will begin to expand the carbon plant recovery capacity. Currently the leach pad is loaded with haul trucks which are being replaced with a belt stacking system to reduce costs and potentially contribute to improved recoveries.

The Company has commissioned an independent study on the available alternatives with respect to mill-processing ore from the Escondida zone. This report is expected in the second quarter of 2007. Following the review of this independent report, the Company will consider options for milling Escondida high-grade ore as well as higher-grade ore in Estrella.

Mine site management has been upgraded with the addition of two key members. The new General Manager, Manley Guarducci, has taken over day-to-day operation of the Mine effective March 1, 2007. Manley has extensive experience in underground and open pit mining as both an engineer and manager. In addition, Toren Olson joined the Company in March as a Technical Consultant and is a highly experienced mine planner.




exploration

Alamos Gold carries out exploration for two fundamental reasons: to replace exhausted resources and to discover new ore bodies to provide future growth for the Company. Alamos Gold's current geographical focus includes the near-mine projects and the regional areas of the Salamandra group of concessions.

The Salamandra group of concessions, covering over 28,500 hectares, continues to offer a number of exciting and promising exploration targets.

Exploration efforts in 2006 were primarily concentrated on near-mine resource expansion projects that have the highest probability of identifying mineable ounces in the near term and providing the lowest discovery cost per ounce. Substantial drilling programs were undertaken at Escondida, El Victor, Gap, Puerto del Aire, and San Carlos, all resulting in multiple ore-grade mineralized intercepts. In addition, exploration drilling continued at the El Realito and Los Bajios project areas, which also resulted in mineralized to potentially ore-grade intercepts. Total drilling completed in 2006 was substantial, with over 400 holes drilled in over 46,000 meters.

Land holdings in the district were also substantially increased by the addition of a large 7,500-hectare concession to the northeast of the existing Salamandra group of concessions. This concession covers large areas of silicic and advanced argillic alteration located between the Mulatos district and the Dolores and Huizopa districts. Small historic gold-silver mine workings are reported in the area. Alamos Gold now controls over 28,500 hectares of concessions in the district.

Planned exploration activities in the El Realito, Cerro Pelon, La Yaqui, and El Halcon areas have been postponed until reasonable surface agreements with landowners are successfully negotiated. Mineral and surface rights are separate in Mexico, and exploration access is dependent upon cooperation.

RESOURCE EXPANSION PROJECTS

Escondida

Location: 600 meters northeast of Estrella Pit and 350 meters northeast of Mina Vieja.

exploration

Geology: Faulted extension of El Salto/Mina Vieja mineralization.

All development drilling necessary for completion of the Escondida Main Zone (EMZ) and Escondida Hanging Wall Zone (EHWZ) resource estimate was completed in 2006, consisting of 103 underground core holes (7,757 meters), 69 surface reverse circulation (RC) holes (6,762 meters), and 7 large-diameter metallurgical core holes (494 meters). The EHWZ is a stratiform zone of high-grade mineralization located directly on top of the large, low-grade EMZ deposit. A 392-meter bulk sample drift was also driven into the EHWZ during the year, which confirmed previous geologic interpretations and revealed a coarse native gold grain size much larger than suggested from the surface drilling. Pockets of very high concentrations of native gold were routinely encountered.

A resource estimate for both the EHWZ and the EMZ was released in early 2007, resulting in a 252,000-ounce increase in total contained ounces compared to the 2004 feasibility estimate. However, we believe the calculation underestimates the true grade of the EHWZ and hence the contained ounces due to a pronounced nugget effect resulting from the abundant coarse gold within the zone. The mean gold grade of drift round samples is 25.48 grams per tonne of gold (g/t Au) compared to 11.17 g/t Au of comparable estimated blocks, a 128% difference which is not unusual in a coarse gold situation such as this. Additional bulk round processing will be undertaken to estimate the grade contribution of the largest gold grains.

El Victor

Location: 1.6 kilometers northeast of Estrella Pit.
Geology: Stratiform and structurally hosted mineralization over a 700-meter northeast-trending strike length, hosted by hydrothermal breccias and volcaniclastic fragmental rocks.

El Victor surface and underground drilling was aggressively pursued during the second half of 2006, with 101 underground core holes (6,939 meters) and 36 surface RC holes (5,859 meters) completed. El Victor drilling is now sufficient for resource estimation, with final drill hole sampling in progress and largely complete. Underground development advanced 438 meters during the year from El Victor toward the Escondida portion of the development drift, resulting in 891 meters of total underground development. Significant new intercepts resulted from holes located near the El Victor/Gap boundary, which include 33.54 meters @ 4.09 g/t in 06EV048 and 25.9 meters @ 3.85 g/t Au in 06EV047. The El Victor mineralized zone is approximately 50 to 150 meters wide and has a 600-meter strike length, with thickness up to 50 meters. It is continuous into the Gap area. Resource estimation is on track for release in the second half of 2007, and will be all new resource ounces.

Gap

Location: 1.0 kilometers from the Estrella Pit and mid-way between Escondida and El Victor resource areas, with current drilling focus approximately 500 meters from the center of each area.
Geology: Gold mineralization hosted by volcaniclastic fragmental rocks and a stratigraphic setting

A resource estimate for both the EHWZ and the EMZ was released in early 2007, resulting in a 252,000-ounce increase in total contained ounces compared to the 2004 feasibility estimate.

exploration

similar to that of the Escondida deposit. Mineralization also being encountered in the underlying rhyodacite porphyry.

The Gap zone is located midway between the Escondida and El Victor resource areas and reflects an approximately 600-meter long trend of mineralization delineated by widely spaced drill holes. Placer Dome conducted limited exploration in the area during 1998, completing only enough holes to demonstrate mineralization continuity between the two resource areas at either end. The zone is a down-faulted covered block in the main mineralized trend between El Salto and San Carlos. Thick intercepts of low-grade mineralization were previously encountered, but the area is now recognized to have all the key geologic characteristics of the high-grade Escondida Hanging Wall Zone and high exploration potential for another high-grade zone. Surface drilling is currently in progress, with blind silica alteration similar to that hosting high-grade mineralization at Escondida encountered over a 300-meter by 150-meter area. The 300 meters of strike length remaining before the Escondida zone is encountered is largely unexplored.

Puerto del Aire

Location: Directly adjoining northeast margin of Estrella Pit and extending 500 meters to the northeast.

Geology: Stratiform and structurally hosted mineralization hosted by rhyodacite porphyry, with local visible gold.

The Puerto del Aire zone is contiguous with mineralization in the Estrella Pit and extends a minimum of 500 meters to the northeast from the current pit margin. Infill and step-out drilling consisting of 23 holes (4,838 meters) was completed in 2006 with encouraging results, including 19.82 meters of 5.10 g/t Au in 06PA004 and 28.97 meters of 1.81 g/t Au in PA012. The zone is a combination of structural and stratiform gold mineralization parallel to the Escondida-El Victor trend. It remains open to the north and northeast along strike.

Additional step-out drilling will be undertaken when Gap drilling is completed. Resource estimation will begin in the second half of 2007.

San Carlos

Location: 2.5 kilometers from the Estrella Pit; continuous with El Victor and extending 400 meters to the northeast.

Geology: Gold mineralization hosted by hydrothermal breccias and volcaniclastic fragmental rocks, with both stratiform and structurally-controlled components.

Phase I San Carlos drilling was completed in 2006 consisting of 33 RC holes (6,303 meters). The drilling program delineated an extensive area of blind mineralization extending a minimum of 400 meters to the northeast from the El Victor project area. Significant gold-bearing intervals include 35.0 meters of 2.99 g/t Au in 06SC008 and 48.8 meters of 4.69 g/t Au in 06SC018, as well as more restricted high-grade intercepts of 4.6 meters of 36.11 g/t Au in 06SC010. The best holes are located at the edge of the drilled area, with intercepts open to the northeast. The geologic characteristics and setting are similar to the Escondida Hanging Wall Zone, and exploration potential for another high-grade zone is believed to be high.




exploration

Additional drilling will be completed once the rig is released from Gap surface drilling.

DISTRICT EXPLORATION PROJECTS

Los Bajios

Location: 4.0 kilometers northwest of the leach pads.

Geology: Thickest and deepest intercepts of oxidized silica alteration in district, with oxidation locally to a depth of 300 meters. Gold mineralization hosted by volcaniclastic fragmental rocks and dacite porphyry, with vuggy silica and pyrophyllite alteration assemblages.

Phase II drilling was completed at Los Bajios, with 17 holes (3,785 meters) completed. A large, blind, gold-bearing system has been identified with similar characteristics to the Mulatos deposit. The area has been extremely difficult to drill due to highly fractured silica alteration, with recovery problems precluding reliable quantification to gold grades to date. Eleven of the 17 holes in 2006 could not be completed to target depth due to caving conditions and/or poor sample recovery. Gold-bearing intercepts occur over a 250-meter by 250-meter area that is open to the west and north. New drilling methods will be attempted in 2007.

El Realito

Location: The northwestern portion of the Mulatos district 13 kilometers northwest of the leach pads, adjacent to the area currently being explored by Grayd Resources.

Geology: Gold mineralization consists of native gold associated with extensive oxidation and pervasive hematite, hosted by a silified fragmental dacitic volcanic sequence.

Twenty-three additional holes (3,488 meters) were drilled on the eastern half of the El Realito project area in 2006. Release of drilling results is pending rerun by screen fire assay due to a suspect coarse gold issue. The project has been inactive because of a surface land access issue on the western portion of the property, which will be addressed through temporary occupation proceedings.

exploration

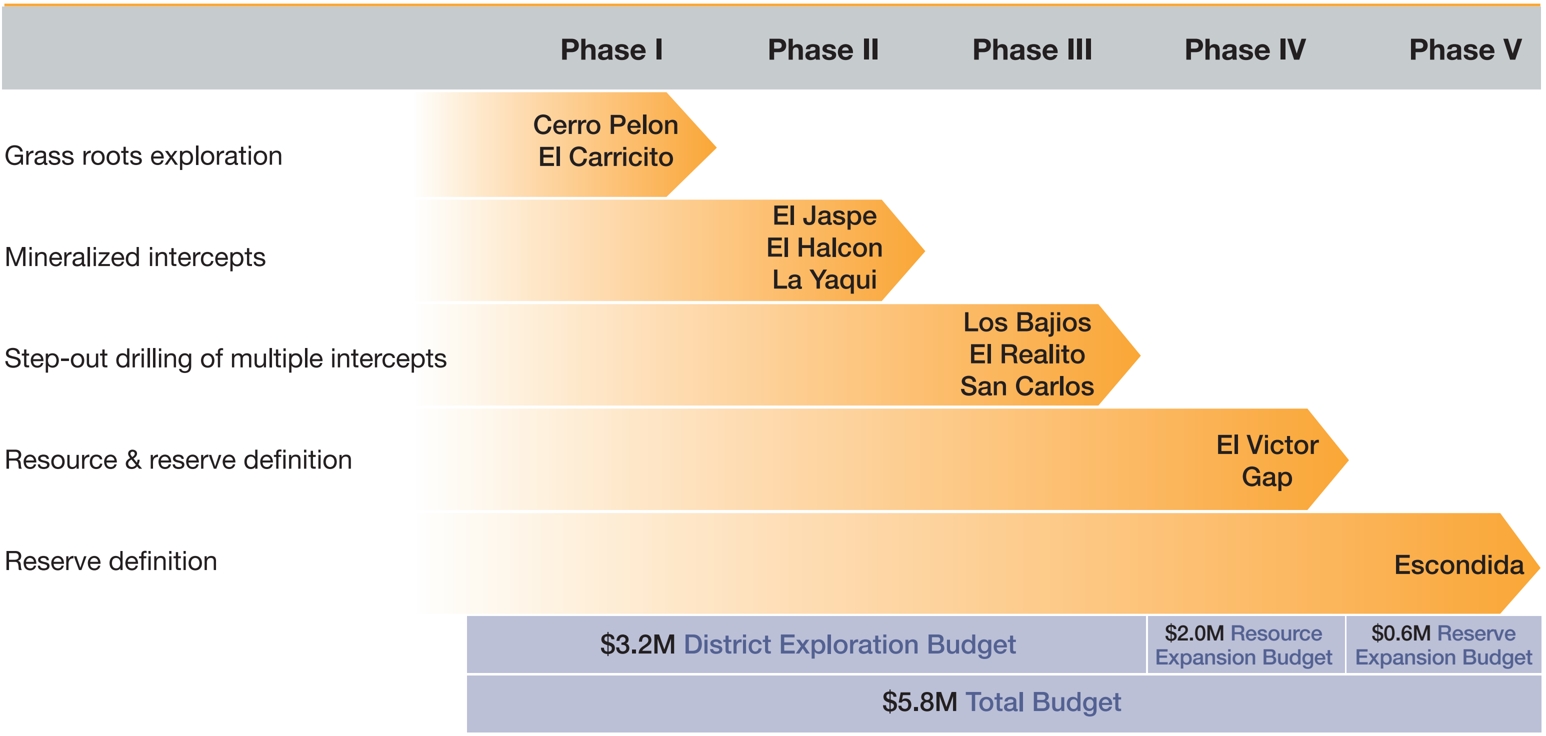
2007 Outlook

Alamos' exploration program is proactive and success-driven. Funding to identify new opportunities and advance ongoing projects is budgeted at $5.8 million for 2007.

Given the current fundamentals of the global gold industry, this budget compares favorably with others in our peer group and should provide Alamos with opportunities to participate in a stream of promising, high-quality, advanced-stage projects possessing an enhanced likelihood for economic success.

The Company's exploration program in 2007 will continue to focus on resource-expansion projects at Gap, Puerto del Aire, and San Carlos. New resource additions are expected at El Victor, Gap, and Puerto del Aire. The exploration budget for 2007 of $5.8 million will be roughly evenly divided between the resource expansion projects and further drilling activities at Los Bajios, Cerro Pelon, El Realito and El Carricito.

Pipeline of Projects at All Stages



responsible mining

Even before construction of the mine began, environmental care was a value promoted throughout the Company, and some of the projects defined early on are now in progress. Among these is the ongoing relocation of over 1,000 pine trees.

Alamos Gold employs best practices for worker and environmental safety. The Company is working in cooperation with government regulators to comply with operating and environmental standards. Local community assistance mainly involves support for health and education, employment and training, and infrastructure development and maintenance. The Mulatos Mine has approximately 372 employees, 19% of whom live within the region. In addition, indirect employment is created on a ratio of approximately three to one.

Education is a priority for Alamos Gold; the Company encourages local youth to pursue higher education. A scholarship program has been established for the nearby communities of Mulatos, Mataracһi and Sahuaripa. During 2006, Alamos Gold awarded three post-secondary and six university scholarships. The program entitles the recipient to monthly financial assistance.

Alamos Gold has established a funding program to improve the infrastructure of the elementary and secondary schools located in the areas of Mulatos and Matarachi. At the Jesus Garcia Elementary School, in conjunction with the Government of Sonora, Alamos Gold donated a computer lab and funded the installation of solar panels for power. At the Matarachi Secondary School, a media-communications classroom was built and fully equipped.

Alamos Gold finances La Casa del Maestro ("Teacher's Home"), a place where teachers can live while providing education in remote areas. In addition, the Company provides them with transportation each weekend to their hometowns.

Alamos Gold's onsite medical clinic is the only one of its kind in the region and is staffed by a full-time physician. It is capable of delivering emergency medical assistance and extends this assistance to the people in the local communities when required. In addition, the doctor holds a clinic in the town of Mulatos on a weekly basis.

Alamos Gold strives to achieve an accident-free mine site. To accomplish this objective, the Company provides safety workshops and training programs for employees. In addition, the mine has a well-trained Mine Rescue Team. The mine has a proud record of over 400,000 hours worked without a lost time accident.

Alamos Gold employs best practices with respect to the environment. Standard open-pit heap leaching techniques have been established to meet or exceed environmental requirements. The goal is to minimize the environmental impact of mining and exploration activity. As part of the feasibility process, a comprehensive rehabilitation program was established and the Company recognizes an annual charge in its financial statements with respect to funding this program.

Even before construction of the mine began, environmental care was a value promoted throughout the Company, and some of the projects defined early on are now in progress. Among these is the ongoing relocation of over 1,000 pine trees.

Care for employee safety, local communities, and the environment are some of the essential values that must be built into the thinking of mining companies today in order to ensure sustainability. Alamos Gold has promoted these ideas from its earliest stages. We believe these values will support future growth and ultimately contribute to shareholder value.

management's discussion & analysis

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 & analysis

The Company has four elements to its business strategy:

1. Establish itself as a profitable gold producer, continually improving operating performance and an expanding production profile;
2. Increase proven and probable reserves through conversion of measured and indicated resources;
3. Make new mineral discoveries on its extensive concessions at Salamandra and expand resources;
4. Add resources and proven and probable reserves through the acquisition of prospective mineral properties.

(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, 2006, compared with the year ended December 31, 2005. 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 functional and reporting currency is the United States dollar. This MD&A is current to March 9, 2007 and should be read in conjunction with the Company's Annual Information Form and other corporate filings available at www.sedar.com ("SEDAR"). Management is responsible for the consolidated financial statements referred to in this MD&A provides officers disclosure certifications filed with securities commissions on SEDAR. The audit committee reviews the audited consolidated financial statements and MD&A, and recommends approval to the Company's Board of Directors.

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

Overview

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

In 2006, the Company was able to continue to make significant progress on the first three components of its business strategy. The Company produced 101,170 ounces of gold in 2006 and was able to show measurable improvements throughout the year with consistent increases in quarterly gold production. In the fourth quarter of 2006, the Company achieved record gold production of 31,720 ounces, representing a 28% increase over third quarter production levels. Cash operating costs were $294 per ounce of gold sold in 2006. The first element of the Company's business strategy pertains to continual improvements in operating performance, which includes efforts to reduce cash operating costs to the low to mid-$200 range.

The second component of the Company's business strategy involves increasing proven and probable reserves through the conversion of measured and indicated resources. While the Company did not announce increased proven and probable reserves during 2006, measured and indicated resources at Escondida were increased by 70%. The Company expects to announce revised proven and probable reserves late in the first quarter of 2007.

management's discussion & analysis

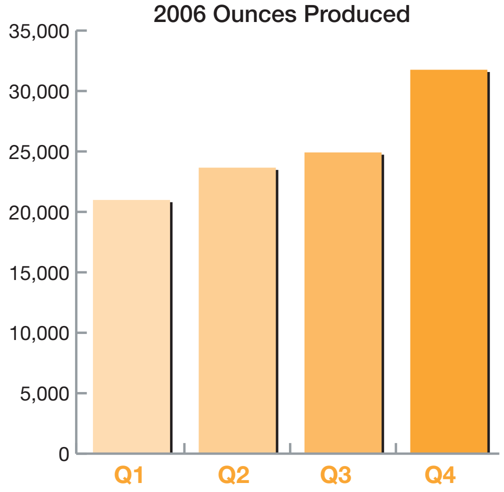
During 2006, the Company was successful in identifying two new areas of gold mineralization at the San Carlos and Gap areas.

Advances on the Company's fourth strategy are dependent on factors outside the control of the Company, such as the availability of mineral properties at a reasonable price which meet the Company's investment criteria.

The Company achieved commercial production at its Mulatos Mine (the "Mine") on April 1, 2006. Phase 1 development of the Mine was completed in February 2006 following the successful commissioning of its three-stage crusher and conveying system. Planned ore production in Phase 1 was 10,000 tonnes of ore per day. The Company achieved intermittent Phase 2 expansion rates of 15,000 tonnes of crushed ore per day during the third quarter of 2006.

Initial ore production from the Mine is derived from the Estrella Pit. The Company's Feasibility Study dated June 2004 indicated that the Estrella Pit 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 at a cut-off of 0.6 g/t Au, or approximately 3 million contained ounces of gold. Revised proven and probable reserves are expected to be announced late in the first quarter of 2007.

The Salamandra group of concessions surrounding the Mine consists of 28,500 hectares of mining claims that contain both advanced and grassroots exploration prospects. There are several advanced exploration projects near the Estrella Pit that have the potential to add resources and reserve ounces to the greater Mulatos deposit, including both mineralization extensions and satellite deposits. In 2006, the Company invested $8.4 million in exploration activities, of which $6.2 million was invested primarily in underground development and core drilling in the Escondida, El Victor and Gap areas in order to expand resources and define reserves. Exploration success in 2006 included discoveries at San Carlos and the Gap.



2006 highlights

During the year ended December 31, 2006, the Company:

- Announced commercial production at its Mulatos Mine on April 1, 2006
- Achieved Phase 2 expansion rates of 15,000 tonnes of crushed ore per day in the third quarter
- Produced 101,170 ounces of gold at a cash operating cost of $294 per ounce of gold sold
- Sold 91,220 ounces of gold at an average realized price of $599 per ounce for gold sales revenues of $54.7 million
- Recognized earnings before income taxes and conversion of convertible debentures of $3.1 million or $0.04 per share
- Realized a cash margin per ounce of gold sold of $281 per ounce
- Invested $8.4 million in exploration activities resulting in increasing resources at Escondida by 70%, continuing to develop the El Victor deposit and identifying new gold mineralization in the San Carlos and Gap areas
- Reduced the Company’s CDN$50 million convertible debenture obligation by 97% to CDN$1.5 million with the induced early conversion in June 2006
- Disposed of its non-core La Fortuna property for consideration of 5 million shares of Morgain Minerals Inc.

Results of Operations

The Company began construction of the Mulatos Mine in the third quarter of 2004 and operations commenced in the third quarter of 2005 with the Company pouring its first gold bar in July 2005. Construction was completed in the fourth quarter of 2005. Commissioning of the crusher and conveying system was successfully completed in early 2006, and the Company announced commercial production at the Mine effective April 1, 2006. The Company produces gold in dore bars for shipment to a refinery. Gold may be sold in refined form or as dore.

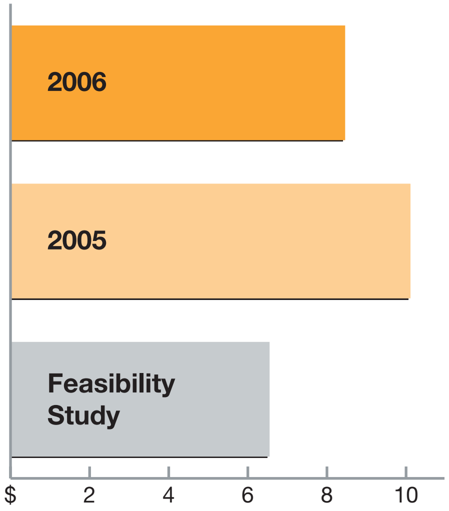
Gold production at the Mine in 2006 was 101,170 ounces of gold in dore and gold sales were 91,220 ounces. Gold production and gold sales in 2005 of 7,647 and 5,950 ounces respectively, were significantly lower as the Company was in a pre-commercial phase. All reported Mine production is subject to final refinery settlement.

The crusher became operational in February 2006 and crusher performance has improved continually throughout the year. In the first half of 2006, 42% of the ore stacked on the pad was crushed, with the balance representing run-of-mine (uncrushed) ore. A total of 944,757 tonnes of crushed ore was stacked on the leach pad in the six-month period ended June 30, 2006 compared to all of the 2,507,486 tonnes of crushed ore stacked in the last six months of 2006. The table below outlines key quarterly production indicators during 2006:

Production summary	**Q1(1)**	**Q2**	**Q3**	**Q4**	**2006**
Ounces produced(2)	20,950	23,620	24,880	31,720	101,170
Ore mined – tonnes	1,165,787	1,224,319	1,116,973	1,070,341	4,577,420
Waste mined – tonnes	2,198,484	2,070,213	3,049,427	3,039,139	10,357,263
Total tonnes mined	3,364,271	3,294,532	4,166,400	4,109,480	14,934,683
Tonnes of ore crushed	332,275	612,482	1,290,275	1,217,211	3,452,243
Tonnes of ore mined per day	13,100	13,600	12,100	11,900	12,600
Tonnes of ore crushed per day(1)	6,400	6,800	14,000	13,400	11,500
Waste-to-ore ratio	1.89	1.69	2.73	2.84	2.26
Grade (g/t Au)	1.47	1.94	1.43	1.83	1.66

(1) Tonnes of ore crushed per day for Q1 2006 reflects the results of March 2006 only, as the crushing and conveying system was successfully commissioned in February 2006.
(2) Q1 and Q2 2006 reported gold production has been adjusted to reflect final settlement amounts. Q3 and Q4 2006 reported gold production is subject to final settlement.

2006 Total cost per tonne of ore



The Company realized consistent growth in quarterly gold production throughout 2006 due to the following factors:

- Uncrushed run-of-mine ore and colluvial material was stacked on the leach pad in the first half of 2006. Gold recoveries from uncrushed material are lower than recoveries of ore crushed to Feasibility Study specifications.
- Tonnes of ore crushed increased significantly in the third and fourth quarters of 2006.
- The Company achieved a smaller crush size in the fourth quarter compared to other quarters of 2006.

The table below compares 2006 costs to prior year amounts and Feasibility Study rates:

The Company realized cost improvements in 2006, as compared to 2005 due primarily to an increase in the tonnes of ore mined. The total cost per tonne of ore in 2007 is expected to be consistent with 2006 levels, as operating efficiencies at expected higher output rates will be offset by higher scheduled maintenance costs.

Mining costs were $1.12 per tonne of ore and waste in 2006. Mining costs decreased significantly in the second half of the year as previously rented loading equipment was replaced by mine-owned equipment, and hauling costs decreased due to the discontinuance of hauling run-of-mine ore to the leach pad as the conveyor became operational.

Mining cost per tonne of ore in 2006 was approximately 50% above Feasibility Study levels due primarily

Costs per tonne summary	**2006**	**2005**	**Feasibility Study(1)**
Mining cost per tonne of ore and waste	$1.12	$1.45	$0.95
Waste-to-ore ratio	2.26	3.93	1.42
Mining cost per tonne of ore	$3.66	$7.15	$2.44
Crushing cost per tonne of ore	$1.84	N/A	$1.15
Processing cost per tonne of ore	$1.85	$2.00	$1.98
Administration cost per tonne of ore	$1.10	$0.95	$0.97
Total cost per tonne of ore	$8.45	$10.10	$6.54

(1) Average life of mine amounts as reported in the Feasibility Study.

management's discussion & analysis

to higher mining cost per tonne of material (18% higher) and the waste-to-ore ratio being 59% higher than indicated in the Feasibility Study. The higher than feasibility waste-to-ore ratio in 2006 was planned in conjunction with the increase in production rates to 15,000 tonnes of ore per day. The life of mine waste-to-ore ratio is not expected to change from the Feasibility Study level of 1.42. Mining costs per tonne of material increased due to higher costs for energy-related consumables, explosives, drill bits and hammers. Drilling and blasting costs have been significantly higher than specified in the Feasibility Study due to difficult drilling and fragmentation. The costs for consumables have increased considerably in the three years since the Feasibility Study was prepared.

Crushing cost per tonne of ore in 2006 was 60% higher than outlined in the Feasibility Study. Major improvements in crusher throughput and productivity were realized in the latter half of the year. Crushed tonnes in the third quarter of 2006 were more than double second quarter levels. However, the crushing operation has been unable to consistently achieve its targeted rate of 15,000 tonnes of crushed ore per day. In the last six months of 2006, crushed tonnes of ore per day averaged 13,900, marginally below the budgeted level. The Company expects that the crushing operation will meet its targeted throughput of 15,000 tonnes per day in 2007 through the implementation of an additional stage of crushing between the existing primary and secondary crushers. The new stage of crushing is expected to result in smaller diameter feed into the existing secondary and tertiary crushers, which should produce a more consistent final crushed ore product and provide additional capacity.

Processing cost per tonne of ore in 2006 was 7% lower than the $1.98 cost per tonne outlined in the Feasibility Study. Processing costs include expenditures incurred with respect to the leach pad, gold recovery plant and refining activities. The Mine's expenditures on processing activities continue to be below Feasibility Study levels as a result of lower than anticipated consumption of key consumables such as cyanide and lime, offset somewhat by higher per kilogram cyanide and lime costs. As more sulphide ore is processed, lime costs are expected to increase as additional lime is required to balance the pH level in the leach pad. This increase is expected to be partially offset by budgeted cost improvements through the mechanization of the ore stacking and lime application process. Overall, processing cost increases are expected in future periods as the leach pad is expanded.

Total administration costs in 2006 have been slightly higher than specified in the Feasibility Study due to increased road maintenance and camp costs. Road maintenance costs are dependent, in part, on the amount and intensity of rain, which varies from year to year. Management expects administration costs per tonne to stabilize at a level of approximately $1.00 per tonne of ore.

Cash operating cost per ounce of gold sold was $294 in 2006 compared with $382 in 2005. Cash operating costs have been higher than Feasibility Study levels due to higher mining and crushing costs, a higher waste-to-ore ratio for expansion ore availability and lower recoveries from run-of-mine and coarsely crushed ore.

In order to achieve higher gold production in 2007, the Company is focused on increasing the throughput of ore through the crusher at the optimal discharge size of 80% passing 3/8 of an inch. The Company is currently in the process of installing an additional fine crusher between the existing primary and secondary crushers, which is expected to improve the crushing operations' ability to consistently achieve the desired crush size. Reducing crush size is expected to improve gold recoveries.

Gold recovery rates are sensitive to crush size with finer crushed material yielding higher recovery. During 2006, the crusher configuration produced a product which was coarser than specified in the Feasibility Study. The Company has assembled a database of monthly composite column tests to analyze the recovery rates of ore mined. Based on the results of this analysis, the Company's expectations are that coarsely crushed ore (approximately 80% passing 1 inch) will ultimately recover between 50% and 55%.

Crushed ore to the pad averaged 80% passing 5/8 of an inch in the second half of 2006 compared with 80% passing one inch in the second quarter of 2006.

In order to achieve higher gold production in 2007, the Company is focused on increasing the throughput of ore through the crusher at the optimal discharge size of 80% passing 3/8 of an inch. The Company is currently in the process of installing a fourth stage crusher between the existing primary and secondary crushers, which is expected to improve the crushing operations' ability to consistently achieve the desired crush size. Reducing crush size is expected to improve gold recoveries.

Gold production in the first quarter of 2007 is expected to be lower than in the fourth quarter of 2006 as approximately 20% of the material stacked on the leach pad in late 2006 and early 2007 was crushed overliner material for the leach pad expansion. Overliner is composed of highly permeable rocks which are stacked directly on the plastic liner on the leach pad. Actual recoveries from this overliner material have been lower than expected.

Cautionary Non-GAAP Statements

The Company believes that investors use certain indicators to assess gold mining companies. They are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with GAAP. "Cash flow from operating activities before changes in non-cash working capital" is a non-GAAP performance measure which could provide an indication of the Company's ability to generate cash flows from operations, and is calculated by adding back the change in non-cash working capital to "Cash provided by (used for) operating activities" as presented on the Company's consolidated statements of cash flows. "Mining cost per tonne of ore" is a non-GAAP performance measure which could provide an indication of the mining and processing efficiency and effectiveness at the Mine. It is determined by dividing the relevant mining and processing costs by the tonnes of ore processed in the period. "Cost per tonne of ore" is usually affected by operating efficiencies and waste-to-ore ratios in the period. "Cash operating cost per ounce" and "total cash cost per ounce" as used in this analysis are non-GAAP terms typically used by gold mining companies to assess the level of gross margin available to the Company by subtracting these costs from the unit price realized during the period. These non-GAAP terms are also used to assess the ability of a mining company to generate cash flow from operations. There may be some variation in the method of computation of "cash operating cost per ounce" as determined by the Company compared with other mining companies. In this context, "cash operating cost per ounce" reflects the cash operating cost allocated from in-process and dore inventory associated with ounces of gold sold in the period. "Cash operating cost per ounce" may vary from one period to another due to operating efficiencies, waste-to-ore ratios, grade of ore processed and gold recovery rates in the period. "Total cash cost per ounce" includes "cash operating cost per ounce" plus applicable cash royalties.

Financial Highlights

Prior to July 1, 2005, the Company was a development stage mineral exploration company focused on developing and constructing the Mulatos Mine. The Company was in a pre-commercial phase for the period from July 1, 2005 to April 1, 2006. Accordingly, comparative 2005 financial results may not reflect the results of commercial mining activities.

A summary of the Company's financial results for the years ended December 31, 2006 and 2005 is presented below:

In 2006, the Company generated cash from operating activities before changes in non-cash working capital of $18,128,000. Investments in working capital for 2006 totaled $18,792,000 resulting in cash flows used in operating activities of $664,000. Significant investments in working capital in 2006 included parts and supplies and gold inventories ($16,014,000) and an increase in accounts receivable ($2,506,000). In 2007, as the Mine reaches steady state production, these significant cash out-flows to fund working capital are expected to stabilize.

The Company recognized earnings before income taxes and the equity component of the loss on conversion of convertible debentures of $3,101,000 ($0.04 per share) in 2006 compared to a loss of $9,447,000 ($0.12 per share) in 2005. The 2006 loss per share of $0.05 was affected by the debt settlement expense of $5,990,000 charged to retained earnings in the second quarter of 2006 in conjunction with the early conversion of the majority of the Company's outstanding convertible debentures.

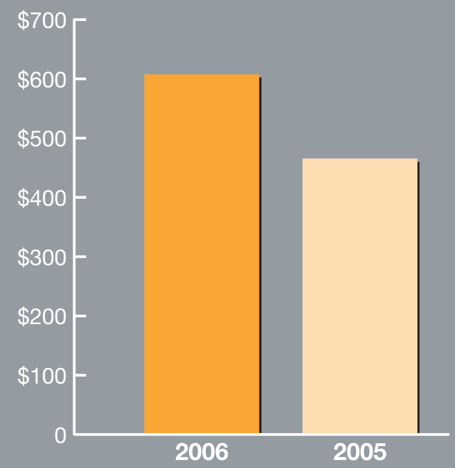
Gold production in the first quarter of 2007 is expected to be lower than in the fourth quarter of 2006 as approximately 20% of the material stacked on the leach pad in late 2006 and early 2007 was crushed overliner material for the leach pad expansion. Overliner is composed of highly permeable rocks which are stacked directly on the plastic liner on the leach pad. Actual recoveries from this overliner material have been lower than expected.

Financial results summary	2006	2005
Cash provided by (used for) operating activities before changes in non-cash working capital ($000)[(1)]	18,128	(5,105)
Changes in non-cash working capital ($000)	(18,792)	(7,571)
Cash used for operating activities ($000)	(664)	(12,676)
Earnings (loss) before income taxes ($000)	3,101	(9,447)
Earnings (loss) ($000)	1,976	(9,447)
Loss per share[(2)] ($)	(0.05)	(0.12)
Weighted average number of common shares outstanding – basic and diluted	87,607,000	77,180,000

(1) A non-GAAP measure.
(2) Loss per share for 2006 includes the debt settlement expense related to the early conversion of convertible debentures that was charged to retained earnings of $5,990,000 or $0.07 per share.

The Company recognized earnings before income taxes and the equity component of the loss on conversion of convertible debentures of $3,101,000 ($0.04 per share) in 2006 compared to a loss of $9,447,000 ($0.12 per share) in 2005. The 2006 loss per share of $0.05 was affected by the debt settlement expense of $5,990,000 charged to retained earnings in the second quarter of 2006 in conjunction with the early conversion of the majority of the Company's outstanding convertible debentures.

Reduced gold price per ounce



Earnings in 2006 were significantly impacted by a number of costs related to the early conversion of the Company's outstanding convertible debenture liability. Specifically, the following costs totaled $0.10 per share in 2006 and are not expected to recur in 2007:

- Debt settlement expense related to the early conversion of convertible debentures of which $414,000 was charged to expense and $5,990,000 was charged to retained earnings.
- Accretion of convertible debenture discount of $960,000 and interest expense related to the convertible debentures of $1,184,000 in 2006 have been substantially eliminated as 97% of the convertible debentures were converted in the second quarter of 2006.

Results for the year ended December 31, 2005 are not directly comparable as the Mine was in the construction and pre-commercial production phase during this period.

Gold Sales

Details of gold sales are presented below:

	2006	2005
Gold sales (ounces)	91,220	5,950
Gold sales ($000)	54,654	2,726
Realized gold price per ounce ($)	599	458
Average gold price for period (London PM Fix) ($)	604	462

Gold sales in 2006 of 91,220 ounces was less than gold production for the year of 101,170, as 9,950 ounces of dore were available for sale at year-end and/or subject to final refinery settlement, but not recorded as gold sales in accordance with the Company's revenue recognition accounting policy until 2007.

Gold sales revenues were $54,654,000 in 2006 compared to $2,726,000 in 2005. During 2006, the Company's average realized gold price increased 31% to $599. The Company generally contracts for the sale of gold twice monthly, but may fix the price at various points in a quarter with the intent of achieving the average London PM Fix spot gold price for the quarter. Periodically, the Company may fix the selling price by entering into forward gold sales to lock in a favorable price or provide protection from downside risk.

Assessment of Gold Market

The gold price fluctuated significantly during 2006, showing considerable strength in late May and again towards the end of 2006. The gold price at December 29, 2006 of $636 represented a 24% increase over the 2005 year-end price of $513. At March 9, 2007, the gold price had increased to approximately $650 per ounce.

Operating Expenses and Operating Margins

The Company was able to realize an operating cash margin of $281 per ounce of gold sold in 2006. This compares favorably with the cash margin specified in the Company's Feasibility Study of $160 per ounce.

management's discussion & analysis

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

	2006	2005
Gold production (ounces)(1)	101,170	7,647
Gold sales (ounces)	91,220	5,950
Cash operating costs ($000)(2)	26,856	2,270
• Per ounce sold ($)	294	382
Royalties and production taxes ($000)(3)	2,175	–
Total cash costs ($000)(4)	29,031	2,270
• Per ounce sold ($)	318	382
Amortization ($000)	7,821	561
Accretion of asset retirement obligations ($000)	157	11
Total production costs ($000)(5)	37,009	2,842
• Per ounce sold ($)	406	478
Realized gold price per ounce ($)	599	458
Realized cash margin per ounce(6) ($)	281	76

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

Production from the Mine is subject to a sliding scale production royalty commencing on commercial production which was established by agreement on April 1, 2006. At current gold prices above $400, the royalty is set at a rate of 5% of the value of gold and silver, less certain allowed refining and transportation costs. Valuations are based on average London PM Fix gold market prices, not actual prices realized by the Company. With the achievement of commercial production on April 1, 2006, the Mine's production to a maximum of two million ounces of gold is subject to royalty. Royalty expenses in 2006 totaled $2.2 million.

Exploration

Exploration costs charged to operations during the year ended December 31, 2006 totaled $4,319,000 compared to $1,889,000 in the same period of 2005.

In 2005, the Company changed its accounting policy for exploration costs. Prior to 2005, as the Company was in the development stage, exploration costs were capitalized. Under the accounting policy adopted in 2005, certain exploration costs are expensed if the costs do not meet the criteria for classification as mine development costs.

The increase in exploration expenditures charged to operations in 2006 reflects both increased exploration spending and increased activity on exploration projects such as El Victor, Gap, San Carlos, Puerto del Aire, Los Bajios and El Realito which do not meet the criteria for classification as mine development costs eligible for capitalization.

Earnings in 2006 were significantly impacted by a number of costs related to the early conversion of the Company's outstanding convertible debenture liability which totaled $0.10 per share in 2006 and are not expected to recur in 2007.

Corporate and Administrative

Corporate and administrative expenses were $3,604,000 in 2006 compared to $2,791,000 in 2005. The key components of this expense are shown below:

	2006 ($000)	2005 ($000)
Salaries and management fees	1,856	1,317
Legal, audit and accounting	342	252
Office and administration	498	552
Shareholder communications	392	278
Travel and accommodation	370	276
Trust and filing fees	146	116
	3,604	**2,791**

The increase in corporate and administrative expenses in 2006 as compared to the same periods of 2005 is primarily attributable to additional activity at the Company's corporate head office in Toronto and administration office in Hermosillo, Mexico.

Salaries and management fees of $1,856,000 increased 41% in 2006 over 2005 due both to the addition of staff at the Company's administration offices and higher bonuses paid.

Legal, audit and accounting fees of $342,000 have increased 36% over prior year levels due primarily to higher audit fees and costs relating to internal control documentation. In 2006, the year-end audit fee has increased and the Company has hired its auditors to conduct quarterly review procedures. Legal fees decreased in 2006 as certain procedures relating to regulatory filings were performed internally.

Office and administration fees decreased 10% as the Company reduced its reliance on external consultants for hiring, information technology, and human resources consulting. Shareholder communications costs increased from $278,000 in 2005 to $392,000 in 2006 due primarily to increased annual report costs and conference attendance fees. Travel and accommodation expenses increased due to increased travel between the corporate head office in Toronto and the Mine in Mexico. Increases in trust and filing fees were the results of transfer agent fees paid in conjunction with the early conversion of the Company's convertible debentures in the second quarter of 2006 and higher stock exchange listing fees resulting from the Company's comparatively higher market capitalization in 2006.

Corporate and administrative costs in 2007 are expected to total $3.8 million.

Stock-based Compensation

Stock-based compensation in 2006 was $1,820,000 compared to $1,142,000 in 2005.

	2006	2005
Number of stock options granted	1,235,000	1,945,000
Average exercise price of options granted (CDN$)	$8.89	$4.57
Value of stock-based compensation (as determined by Black-Scholes option pricing model)	$3,625,000	$2,088,000

Higher stock-based compensation expense in 2006 is the result of both the higher average exercise price of options granted in 2006 compared with 2005, and vesting provisions that the Company implemented in 2006 which have extended the expected option life. These factors contribute to a higher calculated market value of stock options granted as determined by the Black-Scholes option pricing model.

All stock option grants in 2006 are subject to vesting provisions whereby the market value is charged to stock compensation expense over the vesting term of the option.

Accretion of Asset Retirement Obligation

The asset retirement obligation on the Company's balance sheet of $2,640,000 reflects the discounted value of the amount the Company expects to incur on closure of the Mine for reclamation and reforestation activities. The accretion expense represents the increase in the liability due to the passage of time. The accretion of asset retirement obligation expense of $157,000 in 2006 was significantly higher than the $16,000 in 2005, as the Company's expected future liability increased at the end of 2005 in conjunction with the start of mining activities.

Employee Future Benefits

In April 2006, the Company established a subsidiary employment services company in Mexico. Prior to this, all staff were contract workers paid through an independent third-party company. The transition to a subsidiary company resulted in the Company being required to recognize employee future benefit liabilities associated with its Mexican workforce. The Company hired an independent consultant to review and calculate the liability for seniority premiums and termination benefits in accordance with Mexican Labour Law. A non-cash expense in the amount of $350,000 was recognized at the end of 2006 related to this obligation measured at the discounted value of expected future cash payments.

Financial Revenues and Expenses

During the second quarter of 2006, the Company incurred significant charges related to the incentive conversion of its convertible debentures. In June 2006 non-cash debt settlement expense of $414,000 was charged to earnings and $5,990,000 was treated as a capital transaction and charged to deficit.

The early conversion of the convertible debentures resulted in a significant reduction of future accretion, interest and foreign exchange costs. Accordingly, costs related to the convertible debenture in the third and fourth quarters of 2006 were substantially less than in prior periods of 2006 and 2005.

Interest Income

In the year ended December 31, 2006, the Company earned $346,000 in interest income compared with $856,000 in 2005. Lower interest income in 2006 resulted from lower average cash balances as compared to the prior period. During the first quarter of 2005, the Company completed its CDN$50 million convertible debenture financing and held substantial funds in interest-bearing cash accounts throughout 2005.

Interest Expense

The Company's interest expense for the years indicated consists of the following:

	Rate	2006 ($000)	2005 ($000)
Convertible debentures	5.5%	1,184	1,797
Capital lease obligations	LIBOR + 4.1%	654	17
Bank loan	LIBOR + 2.75% (drawn)	321	10
		2,159	**1,824**

Interest expense related to the convertible debentures amounted to $1,147,000 for the first half of 2006. Subsequent to the early conversion of convertible debentures in June 2006, interest charges in the third and fourth quarters of 2006 of $37,000 were minimal. The higher interest on convertible debentures in 2005 is primarily the result of the CDN$50 million liability being outstanding for 10 months of 2005 compared to 6 months in 2006.

Interest expense on capital lease obligations in 2006 of $654,000 increased substantially from the $17,000 cost in 2005. The Company had five capital leases outstanding at December 31, 2005, all of which were entered into late in 2005. In 2006, the Company entered into an additional five capital leases in the first half of the year.

Interest on the Company's revolving credit facility is charged at LIBOR + 2.75% on the drawn portion. During the majority of 2006, the drawn portion of the Company's revolving bank loan was $3 million.

Financing Charges

Financing charges in 2006 were $436,000 compared with $342,000 in 2005. A breakdown of financing charges is presented in the table below:

	2006 ($000)	2005 ($000)
Amortization of deferred financing charges –		
Convertible debenture	117	223
Bank loan	184	132
	301	355
Less: Capitalized portion	–	(13)
	301	**342**
Bank loan standby fees (0.75% of undrawn portion)	58	–
Capital lease financing costs	77	–
	436	**342**

Financing charges in 2007 are expected to be lower, as all deferred financing charges subject to amortization were expensed or charged to equity in 2006.

Accretion of Convertible Debenture Discount

Accretion expense in 2006 amounted to $960,000 (2005 – $1,272,000, net of capitalized accretion of $179,000). The early conversion of the convertible debentures in the second quarter of 2006 resulted in a 97% reduction in future accretion expenses related to the convertible debenture. Accretion expense in the last half of 2006 was $30,000 and is expected to continue to be minimal in future periods.

Foreign Exchange Loss

The Company recognized a foreign exchange loss of $922,000 in 2006 compared with $712,000 in 2005.

The Company's main foreign currency exposure in 2006 and 2005 resulted from the Company's CDN$50 million convertible debenture liability, which was partially offset by Canadian dollar deposits and forward purchase contracts. The Company's foreign exchange loss related to this exposure in the first half of 2006 (prior to early conversion of the convertible debentures) was approximately $1 million. Subsequent to the early conversion of 97% of the convertible debentures in June 2006, the Company's foreign exchange exposure has been reduced proportionately.

In the latter half of 2006, the Company recognized foreign exchange losses of $142,000 on its net Canadian dollar denominated holdings due to the weakening of the Canadian dollar compared to the United States dollar. Specifically, the exchange rate decreased from US$1 = CDN$0.90 at June 30, 2006 to US$1 = CDN$0.86 at December 31, 2006. These losses were more than offset by foreign exchange gains realized on the Company's net monetary Mexican peso-denominated asset position in Mexico, as the Mexican peso strengthened approximately 5% against the United States dollar between June 30 and December 31, 2006. The net result was a foreign exchange gain of $87,000 in the second half of 2006.

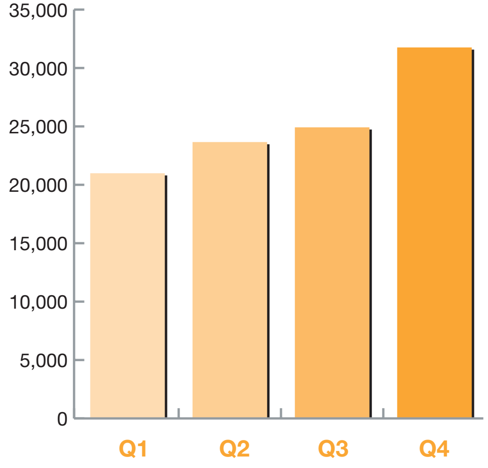
The Company expects that its exposure to foreign exchange gains or losses on its Canadian dollar denominated assets and liabilities will be limited in 2007, as the Company's net exposure has been reduced to approximately $1 million.

Significant volatility in the Mexican peso compared to the United States dollar could result in foreign exchange gains or losses during 2007. The Company's Mexican value added tax receivable balance of $6,214,000 is Mexican peso-denominated and a decline in the value of the Mexican peso relative to the United States dollar could result in a foreign exchange loss, which would be partially offset by the Company's Mexican peso-denominated accounts payable and accrued liabilities.

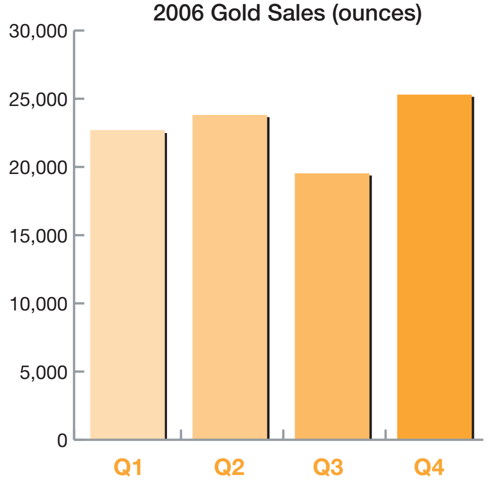
Income Taxes

Current tax expense in 2006 of $125,000 represents a 10% withholding tax on inter-company interest charged by the Company's Canadian parent to the Mexican operating subsidiary. The Company began charging inter-company interest effective October 1, 2006 and will continue to do so throughout 2007. Inter-company interest is charged at a rate of LIBOR + 2%. Future withholding tax charges will depend on prevailing interest rates and the timing of repayment of inter-company loans.

2006 Gold Production (ounces)



2006 Gold Sales (ounces)



Future income tax expense for 2006 was $1,000,000 compared to $nil in 2005. The Company has provided for future income taxes for the year ended December 31, 2006, resulting in an effective tax rate of 32%. Statutory tax rates in Mexico and Canada are 29% and 36% respectively. The Company is in a loss position in Canada in 2006 and is also expected to incur a loss in Canada in 2007. Losses in Canada cannot directly offset profits in Mexico, which would usually result in an effective tax rate which is higher than the statutory rate in Mexico. In 2006, Mexico benefited from the utilization of net tax losses carried over from prior periods. The effective tax rate in 2007 will be affected by the level of profit achieved in Mexico, and other factors such as the inflation rate in Mexico and foreign exchange gains and losses, which cannot be forecast with any certainty.

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 that.

Quarterly gold production has been adjusted to reflect final settlements, where applicable.

2006	Q1	Q2	Q3	Q4	YTD
Gold production (ounces)	20,950	23,620	24,880	31,720	101,170
Gold sales (ounces)	22,670	23,780	19,500	25,270	91,220
Gold sales ($000)	12,490	14,700	12,165	15,299	54,654
Earnings (loss) from operations ($000)	2,285	2,188	1,634	1,446	7,553
Earnings (loss) ($000)	572	(287)	835	856	1,976
Earnings (loss) per share ($)					
– basic and diluted	0.01	(0.08)	0.01	0.01	(0.05)
2005	**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 ($000)	–	–	441	2,285	2,726
(Loss) earnings from operations ($000)	(954)	(2,166)	(973)	(2,060)	(6,153)
(Loss) earnings ($000)	(1,381)	(2,474)	(2,448)	(3,143)	(9,447)
Loss per share ($)					
– basic and diluted	(0.02)	(0.03)	(0.03)	(0.04)	(0.12)

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, 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 Company is exposed to financial gain or loss as a result of foreign exchange movements against the United States dollar.

Approximately 97% of the outstanding convertible debenture was converted into common shares of the Company in June 2006. As a result of the early conversion of this Canadian dollar denominated liability, the exposure to changes in Canadian and United States foreign exchange rates related to this liability has been reduced significantly, and is now more than offset by Canadian dollars on deposit.

In prior periods, the Company entered into foreign exchange forward currency contracts to partially hedge the foreign exchange exposure resulting from the Canadian dollar denominated convertible debenture liability. All of these contracts were settled in the second and third quarters of 2006 in conjunction with the conversion of the majority of the convertible debentures.

The Company's cash and cash equivalents may be invested in short-term liquid deposits or investments which provide a revised rate of interest upon maturity.

The Company incurs operating costs denominated in both the Canadian dollar and the Mexican peso. Accordingly, the Company's operating costs are affected by changes in foreign exchange rates in those currencies.

The Company has elected not to hedge its exposure to fluctuations in the Canadian dollar by buying fixed rate forward contracts in Canadian dollars, as the potential exposure related to the Company's Canadian dollar denominated operating costs is not considered to be significant.

The Company generally has limited exposure to monetary assets and liabilities denominated in Mexican pesos; however, significant outstanding amounts receivable or accounts payable denominated in Mexican pesos could result in a foreign exchange gain or loss. In the second half of 2006, the Mexican peso strengthened approximately 5% against the United States dollar. This resulted in a foreign exchange gain to the Company as a value-added tax receivable balance of between 50 and 70 million Mexican pesos was outstanding during this period. The Company has elected not to hedge this exposure by buying fixed rate forward contracts in Mexican pesos at this time, as it has monetary liabilities denominated in Mexican pesos which partially offset this exposure and as the exchange rate for the Mexican peso has been relatively stable in recent years.

At December 31, 2006, the Company had outstanding gold forward contracts to sell 200 ounces of gold in January 2007. These contracts were not designated as hedges at inception. The mark-to-market valuation of these contracts resulted in a loss of $nil in 2006. At December 31, 2005 the Company had outstanding gold forward contracts to sell 2,000 ounces of gold in early 2006, which resulted in a marked-to-market loss of $94,000.

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, 2006 is composed of the following:

Investments in:	2006 ($000)
Mineral property and mine development	3,991
Mining equipment	8,094
Crusher and conveyor	2,988
Leach pad expansion	5,392
Other mine infrastructure	2,781
Office and computer equipment	161
	23,407
Advances and deposits applied to capital purchases	(1,331)
Cash invested in mineral property, plant and equipment	**22,076**

Mine construction was substantially completed in December 2005 at a cost of approximately $74 million, of which $58 million was incurred during 2005.

During 2006, the focus of the Company's capital expenditures shifted from mine construction to its planned Phase 2 expansion.

Investments in mineral property and mine development of $4.0 million in 2006 reflect capitalized exploration and development expenditures at Escondida, Mulatos and El Salto. In accordance with the Company's accounting policy for mine development costs, expenditures incurred to develop new ore bodies on mineral properties contiguous with mineral properties with proven and probable reserves are determined to have the characteristics of mine development costs and are capitalized.

In 2006, the Company started its 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. In 2006, $10 million was budgeted for loaders, dozers, graders and mine infrastructure to support mine expansion, of which approximately $7.0 million was invested in 2006. The Company achieved Phase 2 expansion rates of 15,000 tonnes of crushed ore per day in the third quarter of 2006. The remaining budgeted $2.4 million is expected to be incurred in 2007 and will improve the Mine's ability to consistently meet or exceed Phase 2 expansion levels.

Significant capital expenditures during the year included $8.1 million invested in mine equipment (includes equipment financed through capital leases), $3.0 million spent on the crusher and conveying system, and $5.4 million on leach pad expansion.

In 2007, the Company intends to continue to expand beyond the Phase 2 levels achieved during 2006. Operating capital for 2007 is budgeted at approximately $9 million. In the second quarter of 2007, the Company will install a fourth stage of crushing between the existing primary and secondary crushers at a cost of approximately $1.6 million. This investment is expected to help increase the throughput of ore through the crusher at the optimal discharge size and increase capacity.

In addition, the Company plans to purchase additional mine equipment and vehicles in 2007 totaling $4.0 million, which will replace previously rented equipment and expand mine capacity. Significant improvements in mine infrastructure are also planned in 2007, including construction of a new truck shop, warehouse, laboratory, ADR plant expansion, water treatment plant and diesel storage area ($1.0 million).

Long-Term Investments

On June 15, 2006, the Company disposed of its La Fortuna property and certain inactive subsidiaries for consideration of five million common shares of Morgain Mineral Inc. ("Morgain"), and a 1% net smelter royalty ("NSR") on future production from the La Fortuna property. The net book value of the La Fortuna property and the inactive subsidiaries approximated the value of the consideration received of $1.1 million. No gain or loss was recognized on this disposition. The shares received on the sale of La Fortuna have been classified as a long-term investment.

In addition, the Company holds investments in securities of certain publicly-traded corporations which are accounted for at historical cost, and classified on the Company's balance sheet as long-term investments.

With the adoption of new accounting standards regarding the recognition and measurement of certain financial instruments in the first quarter of 2007, the Company expects that its long-term investments will be accounted for as available-for-sale securities and marked-to-market at the end of each reporting period. The resulting marked-to-market gain or loss will be recorded in other comprehensive income as a separate component of shareholder's equity.

Exploration and Mine Development Activities

During 2006, the Company's exploration activities have focused primarily on near-mine resource definition projects. During the year ended December 31, 2006, the Company invested $8.4 million in exploration and development activities focused on development drilling in the Escondida, Escondida Hanging Wall Zone ("EHWZ") and El Victor areas, and exploration drilling at San Carlos and Puerto del Aire. A breakdown of the exploration expenditures by project is presented in the table on page 46 and compared to 2005:

In 2007, the Company intends to continue to expand beyond the Phase 2 levels achieved during 2006. Operating capital for 2007 is budgeted at approximately $9 million. In the second quarter of 2007, the Company will install an additional fine crusher between the existing primary and secondary crushers at a cost of approximately $1.6 million. This investment is expected to help increase the throughput of ore through the crusher at the optimal discharge size and increase capacity.

The Company's exploration activities resulted in the following key developments in 2006:

- **Escondida:** Increased measured and indicated resources by 252,500 ounces or 70% at the EHWZ and Escondida Main Zone deposits, located 625 meters north of the Estrella Pit.
- **San Carlos:** Drilling at San Carlos resulted in the delineation of an extensive area of blind mineralization extending a minimum of 600 meters to the northeast from El Victor. Significant gold-bearing intervals included 35.0 meters of 2.99 g/t Au (06SC008) and 48.8 meters of 4.69 g/t (06SC018).
- **El Victor:** Completed drilling at El Victor with resource estimation on schedule for the second half of 2007.
- **Gap:** Discovered significant new gold intercepts during drilling in the Gap area between El Victor and Escondida, including 33.5 meters of 4.09 g/t Au (06EV048) and 25.9 meters of 3.85 g/t Au (06EV047).

Project name	2006 ($000)	2005 ($000)
Escondida	2,570	1,403
Escondida Hanging Wall Zone	1,188	–
El Victor	2,461	513
Mina Vieja	50	1,173
El Salto	71	198
San Carlos	151	–
El Realito	308	314
Puerto del Aire	238	–
Los Bajios	307	485
El Jaspe	12	306
Administration and other projects	1,018	258
	8,374	**4,650**

A development drift connecting the Escondida and El Victor zones was initiated in 2005 to complete development drilling from underground along a two-kilometer mineralized structural corridor. An additional 891 meters of underground development was completed in 2006, resulting in a total of 2,069 meters to date. Drill stations were established at 50- to 100-meter intervals throughout the length of underground development. Drilling was completed in the Escondida deposit in June, with a total of 128 underground core holes (10,276 meters) drilled.

In the first quarter of 2006, the Company announced the discovery of additional high-grade gold intervals at the EHWZ. High-grade intercepts were encountered in an area approximately 165 meters long by 75 meters wide. A total of 69 reverse circulation ("RC") holes (6,939 meters) and seven large-diameter core holes (494 meters) were drilled from surface. Twenty-three RC holes (1,784 meters) were drilled into the EHWZ during August and September to infill gaps in the preliminary block model and to allow for core-RC comparison in areas of predominantly underground core data. Early in 2007, the Company announced that drilling at the EHWZ and Escondida main zone resulted in an increase of 252,500 measured and indicated gold resource ounces at a 0.5 g/t Au cut-off grade, bringing the total measured and indicated gold resource in the model area to 614,500 ounces.

A bulk sampling drift into the EHWZ commenced in the third quarter of 2006. A total of 11,000 tonnes of high-grade material was extracted, with 8,000 tonnes stacked on the leach pad in December 2006 in order to evaluate the leaching characteristics of the ore. Gold production of 2,100 ounces was realized in the month of December 2006, representing a recovered grade of 9.09 g/t Au from run-of-mine material. The average grade of muck samples from rounds sent to the test heap was 22.73 g/t. This ore can be removed from the leach pad for alternate processing at a later date.

In 2007, the Company intends to complete its evaluation of the various methods available to it with respect to mill processing the EHWZ ore.

In mid-2006, the Company released results of a Phase 2 drilling program completed in the San Carlos area, located at the extreme northeast end of the El Victor area. The area was selected as a high-priority exploration target based on geologic similarities to the high-grade EHWZ. The 2006 drilling program was successful and $0.6 million is budgeted in 2007 for Phase 3 drilling.

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At El Victor, the Company completed 438 meters of underground development. The Company drilled 101 core holes, representing 6,939 meters and 36 surface RC holes, representing 5,859 meters. A resource estimate is expected in the second half of 2007.

Drilling at the Gap area in late 2006 and early 2007 has identified significant new gold intercepts. Mineralization is continuous with El Victor, with over 600 meters of strike length to the El Victor-Gap corridor identified to date.

The Company's exploration program in 2007 will continue to focus on resource-definition projects, while significant funds have also been allocated to regional exploration. The exploration budget for 2007 of $5.8 million includes $0.5 million for reserve expansion at El Victor and Puerto del Aire, and $1.7 million for resource expansion activities at Gap. The remaining $3.6 million will primarily be invested in Phase 3 drilling activities at Los Bajios, San Carlos, Cerro Pelon, El Realito and El Carricito.

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 18.86792 common shares for each CDN$100 principal amount of debenture.

In May 2006, the Company received approval from a majority of the holders of the debenture to amend the terms of the trust indenture agreement to allow early conversion of the outstanding debenture. The Company offered debenture holders an incentive conversion ratio, resulting in approximately 97% of the outstanding debentures being converted into common shares of the Company at conversion ratios between 20.5907 and 20.3824 common shares of the Company for each CDN$100 principal amount of debenture.

In conjunction with the conversion, the accrued interest payable to the debenture holders who opted to convert, was paid in common shares at a rate of 18.86792 for each CDN$100 principal amount of debenture.

The early conversion of convertible debentures resulted in the issuance of 10,153,014 common shares and resulted in a reduction in the liability portion of the convertible debenture to $1.1 million at December 31, 2006. In addition, $0.8 million of accrued interest was settled in common shares.

The early conversion of substantially all of the convertible debentures has benefited the Company by significantly reducing its long-term debt and eliminating the accretion, interest, amortized financing and foreign exchange costs associated with the converted debentures.

The Company has an unsecured $10 million revolving line of credit with a bank, available for general corporate purposes. At December 31, 2006, $3 million had been drawn on this facility. The current term expires in July 2007 but may be extended, by mutual agreement, for a further one-year term.

The early conversion of substantially all of the convertible debentures has benefited the Company by significantly reducing its long-term debt and eliminating the accretion, interest, amortized financing and foreign exchange costs associated with the converted debentures.

At December 31, 2006 the Company had $4.9 million in cash and cash equivalents compared to $4.5 million at December 31, 2005. The marginal increase in the Company's cash position has been due primarily to the proceeds of stock option and warrant exercises, offset by investments in capitalized exploration and capital equipment of $23.4 million, and cash flow used for operating activities of $0.7 million.

The Company's working capital position increased significantly during 2006 from a working capital surplus of $13.0 million at December 31, 2005 to more than $31.7 million at December 31, 2006. During the 2006 year, the Company generated in excess of $18.1 million in cash flows from operating activities (before changes in non-cash working capital), which were reinvested into non-cash working capital items. Significant investments in working capital in 2006 included $5.4 million in parts and supplies inventories and $10.6 million for in-process gold inventory. In addition, Mexican value-added tax receivables increased $2.5 million in 2006. The investment for in-process gold inventory reflects all costs required to load gold-bearing ore onto the leach pad for processing into a gold/silver dore product. The investment for in-process leach pad inventory stabilized in the fourth quarter of 2006 and is expected to remain at or below current levels throughout 2007. During 2006, the Company has tripled its parts and supplies inventory in an effort to ensure that a high level of key parts and supplies and consumables are available on-site.

Accounts payable and accrued liabilities increased from $5.3 million at December 31, 2005 to $5.7 million at December 31, 2006 due primarily to royalties payable to royalty holders at December 31, 2006 of $0.8 million.

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 identified certain weaknesses in control procedures relating to the physical handling and allocation of costs associated with parts and supplies inventories. These weaknesses were identified as part of the Company's year-end inventory count procedures. In 2007, the Company will employ ongoing tests and cycled physical inventory counts to ensure physical existence and accurate costing. The Company is also reviewing procedures used as inputs in the gold in-process costing schedules to ensure overall consistency and effectiveness. Compensating controls and substantive reviews have been used to obtain reasonable assurance as to the integrity of the reported financial information. Overall, the Company 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, 2006 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

Off-Balance Sheet Arrangements

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

At December 31, 2006, the Company had fixed forward contracts to sell 200 ounces of gold to counterparties in January 2007, resulting in no marked-to-market gain or loss as the forward price was consistent with the December 31, 2006 spot gold price. 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

The following table summarizes the Company's contractual obligations at December 31, 2006.

Payments due by period **($000)**	**Total**	**Less than 1 year**	**2 – 3 years**	**4 – 5 years**	**More than 5 years**
Contractual Obligations					
Convertible debenture	1,532	71	142	1,319	–
Bank loan	3,000	3,000	–	–	–
Operating lease	756	108	216	216	216
Capital lease obligations	9,526	2,301	4,602	2,623	–
Employee future benefits(1)	700	–	–	–	700
Asset retirement obligations	4,439	–	–	–	4,439
	19,953	**5,480**	**4,960**	**4,158**	**5,355**

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

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

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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 $53,000 in the year ended December 31, 2006 compared to $69,000 paid in the same period of 2005. These transactions have occurred in the normal course of operation and are measured at their fair value.

Outstanding Share Data

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

	As at March 9, 2007
Common shares • Common shares outstanding.	93,729,229
Stock options • Average exercise price CDN$4.35. Approximately 83% vested.	5,171,500
Convertible debentures • Face value CDN$1.47 million. Convertible into common shares at a rate of 188.6792 common shares for each CDN$1,000 principal amount of debentures.	277,547

outlook

The Company expects gold production and sales to be in excess of 150,000 ounces in 2007. Cash operating costs are expected to be above $300 per ounce of gold sold in the first quarter of 2007 declining throughout the year.

Gold production for the first quarter of 2007 is expected to be approximately 24,000 ounces, increasing consistently on a quarterly basis throughout the year. Additional investments in capital equipment, specifically, the fourth stage crusher are expected to ensure the Company meets and exceeds its targeted throughput rates of 15,000 crushed tonnes of ore per day at or below the Feasibility Study recommended discharge size.

The Company expects to receive the results of a milling trade-off study in the second quarter of 2007. Following review of this independent report, the Company intends to evaluate its options with respect to mill processing Escondida ore and high-grade areas of the Estrella deposit.

Revised proven and probable reserves and global resources are expected to be announced late in the first quarter of 2007.

Critical Accounting Estimates

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

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

The Company follows accounting guidelines in determining the fair value of stock-based compensation, as disclosed in Note 14 to the financial statements. This computed amount is not based on historical cost, but is derived based on subjective assumptions input into an option pricing model. The model requires that management make several assumptions as to future events, including: an estimate of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's-length transaction, given that there is no market for the options and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

The Company is required to determine the expected value of the estimated costs of asset retirement obligations and to recognize this value as a liability when reasonably determinable. This valuation is added to the cost of the relevant mineral property on the consolidated balance sheets, and amortized as an expense in the consolidated statements of operations when the mineral property is in production. Asset retirement costs include future removal and site restoration. Key assumptions in determining the amount of 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 statement of operations. The Company updated its initial study in 2006 and will conduct annual reviews of its estimates to reflect new information. Most reclamation will occur at the end of the mine life, expected to be in eight years based on expected mine proven and probable reserves and the current rate of mining.

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 which may have a material impact on, or constitute risk factors in respect of, the Company's future financial performance.

Industry

The Company is engaged in exploration, mine development and the mining and production of precious metals, primarily gold, and is exposed to a number of risks and uncertainties that are common to other companies in the same business. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable adequate machinery, equipment or labour are risks involved in the operation of mines and the conduct of exploration programs. The Company has relied on and may continue to rely on 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, costs of mining and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Where expenditures on a property have not led to the discovery of mineral reserves, spent costs will not usually be recoverable.

Commodity Price

The value of the Company's mineral resources and future operating profit and loss is affected by fluctuations in gold prices, over which the Company has no control. A reduction in the price of gold may prevent the Company's properties from being economically mined or result in the write-off of assets whose value is impaired as a result of low gold prices. The price of gold may also have a significant influence on the market price of the Company's common shares. The price of gold is affected by numerous factors beyond the Company's control, such as the level of inflation, fluctuation of the United States dollar and foreign currencies, global and regional demand, sale of gold by central banks and the political and economic conditions of major gold producing countries throughout the world. The price of gold has increased significantly in the past several years. As of December 29, 2006, the London PM Gold fix gold price was US$632.00 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 a substantial forward sales book in the face of a rising gold market. At the 2007 expected rate of production, a $1 change in the price of gold per ounce would change revenue, earnings and cash flow by approximately $150,000 annually, before income taxes.

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. The currency exchange rate between U.S. dollars and Canadian dollars fluctuated from US$0.8475 to US$0.9148 for CDN$1 in 2006 and US$0.7851 to US$0.8748 for CDN$1 in 2005. 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. The Company has not undertaken to mitigate transactional volatility in either the Mexican peso or the Canadian dollar at this time. A 1% change in 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 which could affect its ability to carry out its business plan. The Company's ability to secure fixed gold prices or future foreign exchange rates is affected by its creditworthiness. Because of its limited operating record, it may not be able to hedge future risk to the extent it feels is appropriate. The Company's ability to obtain financing to explore for mineral deposits and to continue and complete the development of those properties it has classified as assets is not assured, nor is there assurance that the expenditure of funds will result in the discovery of an economic mineral deposit.

Competitive

The Company's business is intensely competitive, and the Company competes with other mining companies, many of which have greater resources and experience. Competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and produced economically; the technical expertise to find, develop, and produce such properties; the labour to operate the properties; and the capital for the purpose of financing development of such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a 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 Company strives to maintain good relations with the local community by providing employment opportunities and social services. The Company has entered into a surface agreement with the Mulatos Ejido. In addition, the Company has entered into agreements with individual Ejido members for the surface rights to which they have been assigned. The transfers of title to these surface rights have been registered under Mexican law.

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

The acquisition of the right to exploit mineral properties is a detailed and time-consuming process. Although the Company is satisfied it has taken reasonable measures to acquire unencumbered rights to explore and exploit its mineral reserves on 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 which could be material and adverse to the Company.

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

management's discussion & analysis

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

Regulatory

The Company's activities are subject to extensive laws and regulations governing worker health and safety, employment standards, waste disposal, protection of historic and archaeological sites, mine development, protection of endangered and protected species and other matters. Specifically, the Company's activities related to its Mulatos Mine and the Salamandra group of concessions are subject to regulation by SEMARNAP, the environmental protection agency of Mexico, Comisión Nacional del Aqua ("CAN"), which regulates water rights, and the Mexican Mining Law. Mexican regulators have broad authority to shut down and/or levy fines against facilities that do not comply with regulations or standards. The Company'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 the Company's 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, licences and permits are required for various aspects of mine development. While the Company has used its best efforts to ensure title to all its properties and secured access to surface rights, these titles or rights may be disputed, which could result in costly litigation or disruption of operations. The Company is uncertain if all necessary permits will be maintained on acceptable terms or in a timely manner. Future changes in applicable laws and regulations or changes in their enforcement or regulatory interpretation could negatively impact current or planned exploration and development activities within the Company's Salamandra Concessions or any other projects with which the Company becomes involved. Any failure to comply with applicable laws and regulations or failure to obtain or maintain permits, even if inadvertent, could result in the interruption of exploration and development operations or material fines, penalties or other liabilities.

Estimates

The mineral reserves and resource estimates of the Company are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified reserve or resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The Company relies on laboratory-based recovery models to project estimated ultimate recoveries by ore type at optimal crush sizes. Actual gold recoveries in a commercial heap leach operation may exceed or fall short of projected laboratory test results. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geologic, metallurgical or engineering work, and work interruptions, among others. Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades or ore types, may have an adverse effect on mining operations or the results of operations. There can be no assurance that minerals recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions or in production-scale operations. Material changes in proven and probable reserves or resources, grades, waste-to-ore ratios or recovery rates may affect the economic viability of projects. The estimated proven and probable reserves and resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations. Based on expected 2006 production rates, a 1% change in expected rate of recovery of gold from ores would result in a $3 per ounce change in cash costs, and approximately $450,000 change in income and cash flow annually, before income taxes. A 1% change in cash cost per tonne of ore would result in a $2 per ounce change in cash cost, and 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 of Operations, 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, it could have a material adverse effect on future operations.

management's discussion & analysis

Legal

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

Forward-Looking Statements

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

This MD&A contains forward-looking statements concerning the Company's plans for its properties and other matters within the meaning of Section 21E of the Securities Exchange Act of the United States. Forward-looking statements include, but are not limited to, statements with respect to anticipated commencement dates of mining expansions, 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 facts and may be "forward-looking statements". Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements.

The nature of risks and uncertainties are discussed more fully in the Annual Information Form filed by the Company and 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, 2006 and 2005 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 audits.

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, 2006 and 2005, 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 2, 2007

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 is 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 2, 2007

John A. McCluskey
President and Chief Executive Officer

Jon Morda, CA
Chief Financial Officer


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consolidated financial statements

Consolidated Balance Sheets

As at December 31 (stated in thousands of United States dollars)

	Note	2006	2005
ASSETS			
Current Assets			
Cash and cash equivalents		$4,878	$4,519
Restricted cash	11	78	1,219
Fair value of forward contracts	18	–	966
Amounts receivable	3	6,368	3,862
Advances and prepaid expenses	4	1,314	1,935
Inventory	5	29,549	9,989
		42,187	22,490
Deferred financing charges	6	–	1,183
Long-term investments	8	1,174	–
Mineral property held for sale	8	–	1,013
Mineral property, plant and equipment	7	113,850	101,514
		$157,211	**$126,200**
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		$5,761	$5,323
Bank loan	11	3,000	3,000
Current portion of capital lease obligations	10	1,700	1,190
		10,461	9,513
Capital lease obligations	10	6,277	3,616
Convertible debenture	11	1,092	33,326
Future income taxes	19	1,000	–
Employee future benefits	9	350	–
Asset retirement obligations	12	2,640	2,100
SHAREHOLDERS' EQUITY			
Share capital	13	158,971	87,830
Warrants	13	–	265
Convertible debenture	11	297	9,983
Contributed surplus	13	3,740	3,170
Deficit		(27,617)	(23,603)
		135,391	**77,645**
		$157,211	**$126,200**

See notes to consolidated financial statements

On behalf of the Board

John A. McCluskey

Brian W. Penny

consolidated financial statements

Consolidated Statements of Operations and Deficit

For the years ended December 31 (stated in thousands of United States dollars, except per share amounts)

	2006	2005
OPERATING REVENUES		
Gold sales	$54,655	$2,726
OPERATING EXPENSES		
Mining and processing	26,856	2,270
Royalties	2,175	–
Amortization	7,821	678
Exploration	4,319	1,889
Corporate and administrative	3,604	2,791
Stock-based compensation	1,820	1,142
Accretion of asset retirement obligations	157	16
Employee future benefits	350	–
	47,102	**8,786**
EARNINGS (LOSS) FROM OPERATIONS	**7,553**	**(6,060)**
Interest income	346	856
Interest expense	(2,159)	(1,824)
Financing charges	(436)	(342)
Accretion of convertible debenture discount	(960)	(1,272)
Foreign exchange loss	(922)	(712)
Other loss	(321)	(93)
Earnings (loss) before income taxes	**3,101**	**(9,447)**
Income taxes		
– Current	(125)	–
– Future	(1,000)	–
Earnings (loss)	**1,976**	**(9,447)**
Deficit, beginning of year	(23,603)	(14,156)
Conversion of convertible debentures	(5,990)	–
Deficit, end of year	**($27,617)**	**($23,603)**
Loss per share (Note 17) – basic and diluted	**($0.05)**	**($0.12)**
Weighted average number of common shares outstanding (Note 17) – basic and diluted	**87,607,000**	**77,180,000**

See notes to consolidated financial statements

consolidated financial statements

Consolidated Statements of Cash Flows

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

	2006	2005
Cash provided by (used for):		
Operating Activities		
Earnings (loss)	$1,976	($9,447)
Adjustments for items not involving cash:		
Amortization	7,821	678
Accretion of asset retirement obligations	157	16
Employee future benefits	350	–
Foreign exchange loss on convertible debenture	1,530	1,845
Fair value of forward contracts	966	(966)
Interest expense settled with common shares	833	–
Future income taxes	1,000	–
Accretion of convertible debenture discount	960	1,272
Loss on settlement of convertible debenture	414	–
Amortization of deferred financing charges	301	355
Stock-based compensation	1,820	1,142
Changes in non-cash working capital:		
Amounts receivable	(2,506)	(1,848)
Inventory	(16,014)	(8,797)
Prepaid expenses	(710)	(229)
Accounts payable and accrued liabilities	438	3,303
	(664)	**(12,676)**
Investing Activities		
Short-term investments	–	15,000
Long-term investments	(74)	–
Mineral property, plant and equipment	(22,076)	(57,919)
	(22,150)	**(42,919)**
Financing Activities		
Convertible debenture issued	–	40,306
Common shares issued	18,861	1,661
Bank loan	–	3,000
Capital lease advances	4,396	4,806
Capital lease repayments	(1,225)	–
Restricted cash	1,141	(1,097)
Deferred financing charges	–	(1,689)
	23,173	**46,987**
Net increase (decrease) in cash and cash equivalents	359	(8,608)
Cash and cash equivalents – beginning of year	4,519	13,127
Cash and cash equivalents – end of year	**$4,878**	**$4,519**
Supplemental information:		
Interest paid	$2,090	$1,271

See notes to consolidated financial statements

notes to consolidated financial statements

December 31, 2006 and 2005 (stated in thousands of United States dollars)

NOTE 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 (the "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.

NOTE 2

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.

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant inter-company 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 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, employee future benefits, 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 generally 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 contract is settled. Changes in the fair value of the related asset or liability are recognized in earnings.

NOTE 2 (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 saleable 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 which requires crushing or screening before being placed on the leach pads. Leach pad ore represents mined ore which 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.

NOTE 2 (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 licences, 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 such determination is made.

Mine development costs incurred to expand operating capacity, develop new ore bodies 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 is stated at cost less accumulated amortization. Plant and equipment is 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.

notes to consolidated financial statements

NOTE 2 (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The United States dollar is the functional currency of the Company and its subsidiaries. Monetary assets and liabilities of the Company which 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.

Long-term investments

Long-term investments represent the Company's investments in equity securities of publicly traded corporations. The Company's long-term investments are accounted for at historical cost and are tested for impairment at least annually.

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's convertible debenture liability approximates its accreted value at each reporting period.

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.

NOTE 2 (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in Canada.

Stock-based compensation

The Company has a stock-based compensation plan as described in Note 14. 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 unit-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 changes in laws and regulations. Refer to Note 12.

notes to consolidated financial statements

NOTE 2 (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee future benefits The Company is subject to Mexican statutory laws and regulations governing employee termination benefits. Employee future benefits include statutorily mandatory accrued benefits payable to employees in the event of termination in certain circumstances. Termination benefits are recognized as an expense and associated liability when the amount can be reasonably estimated at the discounted value of the expected future payments.

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 and warrants 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 is equivalent to loss per share.

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

NOTE 3

AMOUNTS RECEIVABLE

December 31	2006 ($000)	2005 ($000)
Accounts receivable	154	406
Mexican value added tax recoverable	6,214	3,456
	6,368	**3,862**

notes to consolidated financial statements

NOTE 4

ADVANCES AND PREPAID EXPENSES

December 31	2006 ($000)	2005 ($000)
Advances for mining equipment	309	1,640
Prepaid expenses and deposits	1,005	295
	1,314	**1,935**

NOTE 5

INVENTORY

December 31	2006 ($000)	2005 ($000)
Precious metals dore and refined precious metals	4,744	793
In-process precious metals	18,041	7,818
Parts and supplies	6,764	1,378
	29,549	**9,989**

NOTE 6

DEFERRED FINANCING CHARGES

In conjunction with the early conversion of the majority of the Company's outstanding convertible debentures (Note 11), related deferred financing charges were charged to share capital.

December 31	2006 ($000)	2005 ($000)
Convertible debenture	1,222	1,222
Bank loan	316	316
Less: accumulated amortization	(656)	(355)
Less: write-off of deferred financing charges	(882)	–
	–	**1,183**

NOTE 7

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 28,500 hectares, in consideration for the payment of CDN$11,154,000 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 Mine began operations in 2005.

December 31		**2006**		**2005**
	Cost ($000)	**Accumulated amortization ($000)**	**Net book value ($000)**	**Net book value ($000)**
Mineral property and mine development	46,964	(4,221)	42,743	42,083
Mining plant and equipment	69,019	(8,058)	60,961	53,558
Assets under capital lease	10,966	(1,066)	9,900	5,690
Office and computer equipment	391	(145)	246	183
	127,340	**(13,490)**	**113,850**	**101,514**

NOTE 8

LONG-TERM INVESTMENTS

Effective June 15, 2006, the Company sold its La Fortuna property to Morgain Minerals Inc. ("Morgain") for consideration of five million common shares of Morgain and a 1% net smelter royalty ("NSR") on future production from the La Fortuna property. No gain or loss was recognized on the sale. The share consideration received was valued at $1,100,000 and classified as a long-term investment on the Company's balance sheet.

The Company also holds certain investments in equity securities of publicly traded corporations which are carried at historical cost on the Company's balance sheet.

NOTE 9

EMPLOYEE FUTURE BENEFITS

In 2006, the Company established an employment services company in Mexico through which all permanent employees are paid. Accordingly, the Company commenced accruing employee future benefits for all contract workers paid through the employment services company. These benefits consist of a one-time payment equivalent to 12 days' wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. Under Mexican Labour Law, the Company also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months' wages plus 20 days wages for each year of service payable upon involuntary termination without just cause.

The liability associated with the seniority and termination benefits is calculated as the present value of expected future payments. In determining the expected future payments, assumptions regarding employee turnover rates, inflation, wage increases and expected salary levels are required and are subject to annual review and change.

NOTE 10

CAPITAL LEASE OBLIGATIONS

The Company enters into leasing arrangements with financing companies for mining equipment. As at December 31, 2006, the Company had entered into ten leases. The maximum term of each lease is five years, with payments totalling $192,000 per month over the term of the leases. The obligations under capital lease bear interest at LIBOR plus 4.1%. The amount of interest expense related to the obligations under capital lease included in the determination of earnings for the year ended December 31, 2006, was $654,000 (2005 – $17,000). The Company has the right to repay the outstanding balance of the leases at any time.

As at December 31, 2006, the future minimum lease payments under capital lease agreements were:

Year	Capital lease payments ($000)
2007	2,300
2008	2,300
2009	2,300
2010	2,200
2011	420
	9,520
Less: Imputed interest	(1,543)
	7,977

notes to consolidated financial statements

NOTE 11

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.

Interest on the convertible debenture is payable semi-annually in arrears on February 15 and August 15 of each year at an annual rate of 5.5%. Under the terms of the trust indenture, the debenture was convertible into common shares at a rate of 18.86792 common shares for each CDN$100 principal amount of debenture on maturity.

On May 30, 2006, the Company received approval from a majority of the holders of the debenture to amend the terms of the trust indenture to allow for early conversion of the outstanding debenture.

Effective June 22, 2006, debentures representing CDN$44,615,000 or approximately 89% of the outstanding pre-conversion balance were converted into common shares at an incentive conversion ratio of 20.5907 common shares for each CDN$100 principal of debenture, resulting in the issuance of 9,186,541 common shares. Accrued interest related to the converted debentures was settled through the issuance of common shares at 18.86792 common shares for each CDN$100 of accrued interest, resulting in the issuance of 159,824 common shares.

On June 30, 2006, debentures representing CDN$3,829,000 or approximately 8% of the outstanding pre-conversion balance were converted into common shares at an incentive conversion ratio of 20.3824 common shares for each CDN$100 principal of debenture, resulting in the issuance of 780,441 common shares. In addition, accrued interest related to the converted debentures was settled through the issuance of common shares at 18.86792 common shares for each CDN$100 principal of debenture, resulting in the issuance of 14,696 common shares.

The fair market value of the additional share consideration issued as a result of the induced conversion ratio was allocated to the liability and equity elements of the convertible debenture based on the change in relative fair values between the date of issuance and the date of the conversion. Non-cash debt settlement expense of $414,000 was charged to earnings for the year, and $5,990,000 was charged to retained earnings.

notes to consolidated financial statements

NOTE 11 (continued)

DEBT (continued)

Convertible debenture

At December 31, 2006, in accordance with the terms of the trust indenture, a trust account held $78,000 for payment of interest related to the outstanding debentures from August 16, 2006 to February 15, 2007.

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 was for one year, and may be extended at the discretion of the lender for two additional one-year terms to July 21, 2008. 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. On July 21, 2006 the line of credit was extended at the Company's request in the amount of $10 million for an additional one-year term. As at December 31, 2006 the Company was advanced $3 million related to this facility.

NOTE 12

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.

NOTE 12 (continued)

ASSET RETIREMENT OBLIGATIONS (continued)

Continuity of asset retirement obligations for the years ended December 31:

	2006 ($000)	2005 ($000)
Obligations at January 1	2,100	50
Revisions in estimated cash flows	113	–
Change in assumptions	245	–
Liabilities incurred	25	2,034
Accretion of discounted cash flows	157	16
Obligations at December 31	**2,640**	**2,100**

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

	2006	2005
Estimated cost ($000)	4,440	4,265
End of mine life	2014	2015
Discount rate	6.70%	7.25%

notes to consolidated financial statements

NOTE 13

SHARE CAPITAL

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

	Number of shares	Amount ($000)
Outstanding at January 1, 2005	**76,777,918**	**86,170**
Exercise of stock options	192,500	237
Exercise of warrants	495,700	1,423
Outstanding at December 31, 2005	**77,466,118**	**87,830**
Exercise of stock options	1,337,083	3,758
Conversion of convertible debenture	10,153,014	50,765
Exercise of warrants	4,754,300	15,368
Transfer of contributed surplus to share capital for exercised stock options	–	1,250
Outstanding at December 31, 2006	**93,710,515**	**158,971**

b) Stock options outstanding and exercisable as at December 31, 2006:

	Outstanding			Exercisable	
Range of exercise prices ($CDN)	Number of options	Weighted average exercise price (CDN$)	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price (CDN$)
$0.50 – $1.00	200,000	$0.94	0.69	200,000	$0.94
$1.01 – $2.00	480,000	$1.14	1.21	480,000	$1.14
$2.01 – $3.00	1,791,500	$2.40	2.23	1,791,500	$2.40
$3.01 – $4.00	1,100,000	$3.70	3.56	1,100,000	$3.70
$6.01 – $7.00	412,000	$6.35	2.92	274,000	$6.35
$8.01 – $9.00	1,202,000	$8.89	3.78	465,400	$8.89
	5,185,500	**$4.32**	**2.65**	**4,310,900**	**$3.48**

NOTE 13 (continued)

SHARE CAPITAL (continued)

c) Summary of stock option activity:

	Number of options	Weighted average exercise price (CDN$)
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**
Granted	1,235,000	8.89
Exercised	(1,337,083)	3.21
Forfeited	(68,400)	7.19
Outstanding at December 31, 2006	**5,185,500**	**4.32**

d) Summary of warrant activity:

	Number of warrants	Weighted average exercise price (CDN$)
Outstanding at January 1, 2005	**4,900,000**	**3.50**
Granted	350,000	5.80
Exercised	(495,700)	3.50
Outstanding at December 31, 2005	**4,754,300**	**3.67**
Exercised	(4,754,300)	3.67
Outstanding at December 31, 2006	**–**	**–**

notes to consolidated financial statements

NOTE 13 (continued)

SHARE CAPITAL (continued)

e) Summary of contributed surplus activity:

	($000)
Balance at January 1, 2005	**1,877**
Stock-based compensation	1,293
Transfer to share capital	–
Balance at December 31, 2005	**3,170**
Stock-based compensation	1,820
Transfer to share capital	(1,250)
Balance at December 31, 2006	**3,740**

NOTE 14

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 which 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.

Effective May 24, 2006, the Company granted incentive stock options to its directors, officers and employees to purchase up to a total of 985,000 common shares in the capital of the Company at an exercise price of CDN$8.90 per share.

Effective December 21, 2006, the Company granted incentive stock options to its employees to purchase up to a total of 250,000 common shares in the capital of the Company at an exercise price of CDN$8.86 per share.

NOTE 14 (continued)

STOCK-BASED COMPENSATION (continued)

The options granted to directors and officers are exercisable for a five-year period, and the options granted to employees are exercisable for a three-year period. All of the 1,235,000 incentive stock options granted during 2006 vest 20% on the date of grant and 20% at each six-month interval following the date of grant.

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

For options granted in the year ended December 31	2006	2005
Risk-free rate	4.00%	3.75%
Expected dividend yield	Nil	Nil
Expected stock price volatility	50%	50%
Expected option life, based on terms of the grants (months)	27-40	18-30
Per share fair value of options granted	$2.94	$1.07

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.

As at December 31, 2006, 4,310,900 stock options were exercisable. The remaining 874,600 stock options vest over the following two years.

Subsequent to December 31, 2006, 14,000 stock options were exercised at an average exercise price of CDN$4.89.

NOTE 15

RELATED PARTY TRANSACTIONS

A director of the Company was paid $53,000 during the year ended December 31, 2006 (2005 – $69,000) for management and administrative services pursuant to a monthly services contract. These services have occurred in the normal course of operations and are measured at their fair value as determined by management.

notes to consolidated financial statements

NOTE 16

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	**2006 ($000)**	**2005 ($000)**
Assets, by geographic segment		
Mexico	152,641	119,952
Canada	4,570	6,248
	157,211	**126,200**

Years Ended December 31		**2006**			**2005**	
	Mexico ($000)	**Canada ($000)**	**Total ($000)**	**Mexico ($000)**	**Canada ($000)**	**Total ($000)**
Revenues	54,655	–	54,655	2,726	–	2,726
Earnings (loss)	11,481	(9,505)	1,976	(2,136)	(7,311)	(9,447)

NOTE 17

LOSS PER SHARE

Loss per share has been calculated as presented in the table below for the years ended December 31:

	2006 ($000)	2005 ($000)
Earnings (loss) for the year	1,976	(9,447)
Conversion of convertible debentures (Note 11)	(5,990)	–
Loss attributable to common shareholders	**(4,014)**	**(9,447)**
Weighted average number of common shares outstanding – basic and diluted	87,607,000	77,180,000
Loss per share – basic and diluted	($0.05)	($0.12)

NOTE 18

COMMITMENTS AND CONTINGENCIES

As at December 31, 2006, the Company had outstanding gold forward contracts to sell 200 ounces of gold in January 2007. These contracts were not designated as hedges at inception. The marked-to-market value of these contracts was $nil at December 31, 2006.

Production from the Mine is subject to a sliding scale production royalty, which at current gold prices above $400 per ounce is set at a rate of 5% of the value of gold and silver produced, less certain allowed refining and transportation costs. Valuations are based on average London PM Fix gold prices, not actual prices realized by the Company.

NOTE 19

INCOME TAXES

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

December 31	2006 ($000)	2005 ($000)
Earnings (loss) before income taxes	3,101	(9,447)
Expected tax expense/(recovery) at statutory income tax rate	1,100	(3,400)
(Decrease) increase resulting from:		
Difference in foreign tax rates	(1,000)	(200)
Non-deductible accretion expense	300	500
Non-deductible stock-based compensation expense	700	400
Non-deductible loss	200	–
Foreign exchange net taxable gains	(400)	1,600
Inflation net taxable gains	600	700
Withholding tax	125	–
Other	–	100
Valuation allowance	(500)	300
Income tax expense	**1,125**	**–**

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

December 31, 2006	Canada ($000)	Mexico ($000)	Total ($000)
Future tax assets			
Non-capital losses	6,870	7,560	14,430
Long-term investments	80	–	80
Financing charges	980	350	1,330
Employee future benefits	–	100	100
Asset retirement obligations	–	730	730
Valuation allowance	(6,740)	–	(6,740)
	1,190	**8,740**	**9,930**

NOTE 19 (continued)

INCOME TAXES (continued)

December 31, 2006	Canada ($000)	Mexico ($000)	Total ($000)
Future tax liabilities			
Inventory	530	1,510	2,040
Mineral property, plant and equipment	660	8,230	8,890
	1,190	**9,740**	**10,930**
Net future tax liabilities	**–**	**(1,000)**	**(1,000)**

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

Non-capital losses available in Canada to be utilized in subsequent years are $21 million, expiring between 2007 and 2026. Losses in Mexico amount to approximately $27 million and expire over a 10-year period.

NOTE 20

RECLASSIFICATION

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

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 Gold since its inception. Internal policies and procedures evolve and grow with the Company, ensuring continued compliance with regulatory requirements and suggested guidelines of Canadian securities regulatory agencies.

The Board of Directors 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 Gold 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.

board of directors and table of committees

Leonard Harris, Director, Technical, Environmental, Social and Employees' Health and Safety Committee

Richard W. Hughes, Director, Compensation and Nominating Committee, Independent (Special) Committee (Re: Shareholders' Rights Plan)

John A. McCluskey, President, Chief Executive Officer, Director

James M. McDonald, Director, Audit Committee, Corporate Governance Committee, Independent (Special) Committee (Re: Shareholders' Rights Plan)

Brian W. Penny, Director, Audit Committee, Compensation and Nominating Committee

John F. Van De Beuken, Chief Operating Officer, Director, Technical, Environmental, Social and Employees' Health and Safety Committee

Mark Wayne, Director, Audit Committee, Corporate Governance Committee

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

	Audit Committee	**Compensation and Nominating Committee**	**Corporate Governance Committee**	**Independent (Special) Committee**	**Technical, Environmental, Social and Employees' Health and Safety Committee**
Leonard Harris					Chairperson
Richard W. Hughes		Chairperson		Member	
James M. McDonald	Member		Member	Member	
Brian W. Penny	Chairperson	Member			
John F. Van De Beuken					Member
Mark Wayne	Member		Chairperson		

Chairperson ● Member ●

shareholder information

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

Pacific Corporate Trust Company
510 Burrard Street, 2nd Floor
Vancouver, British Columbia V6C 3B9
Tel: 604.689.9853
Fax: 604.689.8144
Email: pacific@pctc.com

2007 Annual General Meeting
The Annual General Meeting of Shareholders of Alamos Gold Inc. will be held at 10:30 am on Friday, May 25, 2007, at the TSX Gallery – Conference Centre, located at street level at 130 King Street West, Toronto, Ontario, Canada.

Investor Relations
Victoria Vargas
Tel: 416.368.9932 Ext. 201
Toll-free: 1.866.788.8801 Ext. 201
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Stock Exchange Listing

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

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Jon Morda, Chief Financial Officer
John F. Van De Beuken, Chief Operating Officer
Ken Balleweg, Vice President of Exploration
Sharon L. Fleming, Corporate Secretary
Jamie Porter, Controller
Victoria Vargas, Investor Relations
Manley Guarducci, General Mine Manager

Design: Signal Studios Photography: Robert Semeniuk