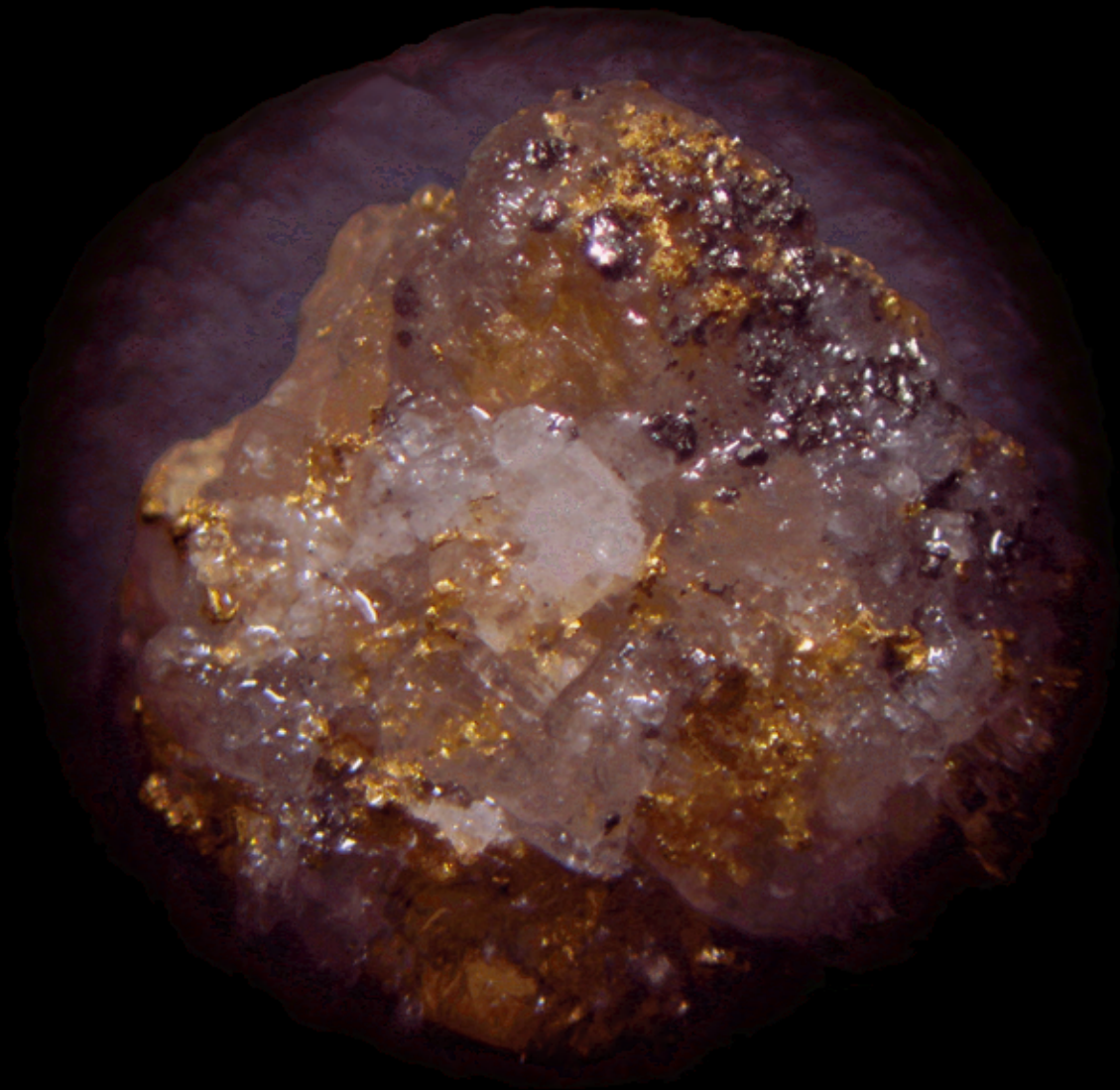




2007 Annual Report

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Corporate Profile

Alamos Gold Inc. (“Alamos”) is headquartered in Toronto, Canada and operates the Mulatos Gold Mine in Sonora, Mexico. The Company plans to increase gold production by optimizing current operations and through new production at the high-grade Escondida deposit. The Escondida feasibility study is due for completion in the second quarter of 2008.

Alamos controls over 28,500 hectares of mineral claims covering a large epithermal field with a strike length of thirty kilometers. The major deposit at Mulatos is a high sulfidation, epithermal gold occurrence in oxide, mixed oxide/sulfide and sulfide ore types containing approximately four million ounces of gold resources. Other deposits continue to be outlined through an active exploration program within this district.

2007 Highlights

Increased revenue 35% to \$74 million

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Increased gold sales 19% to 108,281 ounces

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Strengthened balance sheet and repaid bank loan in full

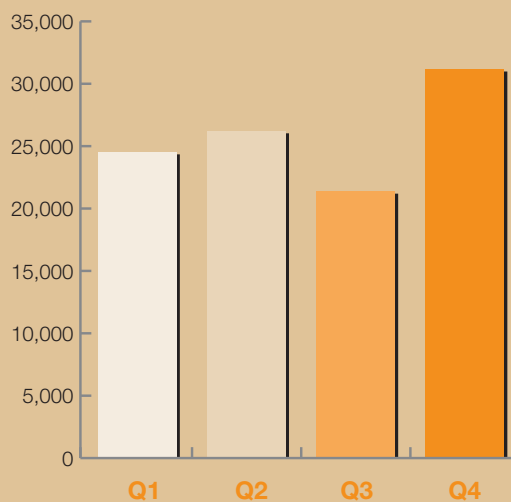
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Announced new measured and indicated resources of 499,000 ounces at El Victor

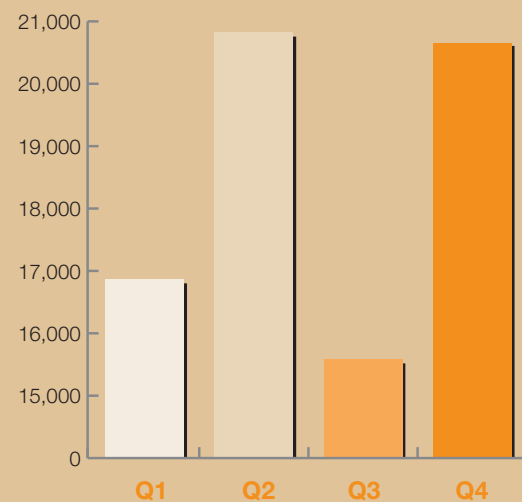
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Discovered a new oxide gold zone at La Yaqui

2007 Gold Production (ounces)



2007 Gold Sales (revenue) (\$000)



Message to Shareholders

We started 2007 with high expectations from operations at the Mulatos Mine. We were building on three consecutive years of exploration success and investing additional capital to expand the operation to achieve a 50% increase over the nameplate production capacity set out in the Estrella feasibility study. However, the Company experienced a number of significant challenges during 2007.



Material mined in the south area of the open pit ultimately proved to have poor recovery characteristics. Until the problem was recognized early in the first quarter, some of this low recovery material was stacked on the leach pad. This had a two-fold impact. It reduced production for the first half of 2007 and put into question the reliability of the block model and the metallurgical recovery assumptions that underpinned the economic viability of the mine. Fortunately these concerns proved to be unfounded.

Recovery was not a simple question to address due to the fact that many variables factor into the equation in a heap leach operation and ore control is only one of them. Other important operational issues dealt with in 2007, which had a direct impact on gold recovery, included the crush size of the ore, percolation rates within the leach pad and the performance of the gold recovery plant. Pinning the problem on the specific cause or set of causes is the only means to arrive at the appropriate response.

We have addressed each of the variables that impact our gold recovery in turn but it is worth mentioning improvements that are being made in crushing and leach pad performance. Recovering gold from the Mulatos Mine is highly dependent on crush size because of the way the gold occurs in the deposit. The finer the ore is crushed, the higher the expected recovery.

To improve crush size and throughput, additional crushing capacity was added by the end of the second quarter. However, the operation did not realize the full benefit of the new crusher until the fourth quarter, due to heavy rainfall in July and August.

Other modifications are in progress for further improvement. Modified ore chutes will be installed in 2008 to address the problem of handling wet ore during the rainy season. Improved configuration of ore screens is being studied, as is the concept of recirculation of screened ore to achieve close to 100% passing three-eighths of an inch.

Percolation on the pad refers to the flow of gold-bearing solution through the heap. As the current pad height approaches seventy meters on the upper lifts, tracking solution flow becomes more difficult. Blinding and channeling of solution flow is another complicating factor in predicting percolation in the pad. This may explain the difference between column test results and measured recovery from the gold inventory within the heap.

In order to address this we have completed a leach pad expansion, nearly doubling our pad capacity. A stacking and conveying system will be in operation by the second quarter of 2008, replacing haul trucks and dozers on the leach pad. Once the system is operational, we expect to agglomerate ore going to the pad, which test work shows has a positive impact on flow rate and recovery.

By the second quarter of 2008 we plan to agglomerate and stack on the new leach pad area which will significantly reduce the residence time of solution in the pad. This should have a positive impact on gold recovery.

We have been fortunate to be working through our first full year of production in a rising gold price environment. We have had a strong conviction that gold was going to turn in a strong performance this cycle and have been saying so in each report to shareholders for the past four years.

With respect to the gold reserves in the block model, ounces in the south zone blocks which were reclassified as waste were ultimately made up by additional ounces found on the north side of the pit in an area that had not been previously defined due to steep topography. It also turned out that benches mined, on average, contained 16% more gold than predicted in the block model, further offsetting reclassified blocks. The net effect on the reserve model shows that we mined 10% fewer ounces than the block model predicted during 2007, but only 2% fewer ounces since the commencement of operations.

Our balance sheet and liquidity is strong and continues to improve, supported by a rising gold price and rising gold production. Increasing cash flow from operations enabled the Company to both repay its bank loan during 2007 and increase working capital to over \$39.2 million. Earnings before income taxes increased to \$0.07 per share in 2007. Gold sales revenue increased 35% from \$54.7 million in 2006 to \$74.0 million in 2007. This was achieved through a 19% increase in ounces sold combined with a higher realized gold price. Since the Company is not currently hedged, it is leveraged to increases in the price of gold. At current gold prices, revenues for 2008 are expected to substantially exceed \$100 million.

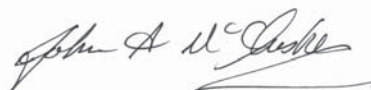
At the time of this writing we are nearing the end of several important capital projects: expansion of the leach pad; a permanent truck shop facility; a diesel fuel station; a larger assay laboratory; improved and expanded camp facilities for our employees; and a new stacking and conveying system. These investments will improve mining operations and contribute to our goal of raising production and lowering costs.

It is our intention to provide the investment community and our shareholders with accurate performance guidance and even outperform our estimates. This requires getting down to basics, including re-working and more precisely defining our block model, establishing a strong maintenance schedule, and improving productivity from our crushers and equipment fleet. We are making progress on each of these fronts. We learned this year that our block model has been consistently reliable. The additional drilling conducted in the pit throughout 2007 has provided the additional data we need to increase our confidence with respect to forecasting recovery.

We wish to welcome Mr. Eduardo Luna to the Company's Board of Directors. Mr. Luna has enjoyed a long and distinguished career in the mining industry in Mexico, and is well known in Canada and throughout the industry through his association with Goldcorp, where he recently retired as President of Goldcorp Mexico, and through his association with Silver Wheaton Minerals where he is Chairman of the Board. He brings a wealth of experience to the Board on such broad matters as engineering, community and government relations, mergers and acquisitions and education. He is our sole director resident in Mexico and as such will help us gain a closer tie to the country where we operate and build a better understanding of the country and its culture.

We are committed to building Alamos into a successful growth-oriented producer. We have made progress in building a stronger operating team in Mexico beginning with our General Manager, Manley Guarducci. Since his arrival in March of 2007, he has established a clear direction for the project and has been integral in attracting a strong group of experienced managers for the Mulatos Mine. As the many initiatives he has undertaken at the mine near completion, we are looking forward to a strong operating performance in the year ahead.

We have been fortunate to be working through our first full year of production in a rising gold price environment. We have had a strong conviction that gold was going to turn in a strong performance this cycle and have been saying so in each report to shareholders for the past four years. There are many challenges to face in mining operations and only a highly qualified and committed team can make it work. In closing I would like to extend my gratitude to our team and acknowledge that it is integral to our past success and future growth.



John A. McCluskey

President and Chief Executive Officer





Operations

2007 REVIEW

Gold production for the year was 106,200 ounces at a cash operating cost of \$390 per ounce of gold sold, an increase of 5% over 2006 gold production of 101,170 ounces. The mine processed 3.9 million tonnes of ore and 9.9 million tonnes of waste, resulting in a waste-to-ore ratio of 2.5:1. Ore production was less than planned and below 2006 levels due primarily to lower than planned crusher throughput. Mining, crushing and stacking operations all finished the year on a positive note, with the number of contained gold ounces stacked in the fourth quarter totaling 53% more than the average of the three previous quarters. Due to the length of the leach cycle, the high rate of stacking in the fourth quarter of 2007 will be reflected in production for the first quarter of 2008.

Mining operations were improved significantly in 2007. Since the start of 2007, ore classification and handling methods were improved, including the use of bottle roll tests of blast holes to differentiate ore from waste prior to assigning the broken ore to the crusher or to the waste dump. Procedures were adjusted after determining that the ore mined in the fourth quarter of 2006 and then stacked on the leach pad had poor recovery characteristics. Two reverse-circulation drilling programs within the pit limits were conducted to provide additional metallurgical data that was incorporated into a revised recovery model. Subsequently, 700,000 tonnes of ore in the mine block model were reclassified as waste due to poor recovery. As a result of stringent ore-control procedures, recoveries indicated from bottle roll tests of crushed ore and monthly composite column tests

of crushed ore have increased from an average of 50% to more than 60%. The reclassification of poor recovery material from ore to waste has not had a significant impact on the blast hole to block model reconciliation. On a project-to-date basis, blast holes have found 3.94% fewer tonnes of ore and 4.70% higher grade resulting in 0.58% more ounces of gold. The block model continues to be an accurate indicator of in situ gold content and recovery characteristics.

The pit is now extremely organized which provides flexibility in the mining sequence and contributes to a more efficient and cost-effective operation. The waste-to-ore ratio during 2007 was higher than budgeted for two primary reasons. The reclassification of ore to waste due to the identification of low recovery material resulted in an increase to the waste component mined in the first half of the year. Secondly, trucks scheduled for hauling ore were rescheduled to haul waste as a result of heavy rainfall which reduced crusher throughput in the third quarter. While not planned, this permitted additional waste removal in the pit. The benefits of this additional waste mining in 2007 will be realized in 2008 as the planned waste-to-ore ratio is expected to drop to approximately 1.3:1. This will result in reduced mining costs and is expected to improve the Company's cash operating costs per ounce.

A new crusher was commissioned in July 2007 to improve both throughput and crush size. Crushing improved significantly in the fourth quarter of 2007 and has continued to improve to date in 2008. The crushing department is now focused on preventive maintenance, compared to a more reactionary

Mining operations were improved significantly in 2007. Since the start of 2007, ore classification and handling methods were improved, including the use of bottle roll tests of blast holes to differentiate ore from waste prior to assigning the broken ore to the crusher or to the waste dump.

approach that was taken in the past. Continuous improvement is ongoing and the Company is constantly evaluating and implementing new procedures to prepare for future rainy seasons. During the rainy season in the third quarter of 2007, crushed tonnes averaged 9,100 tonnes per day. However, in the fourth quarter the average crusher throughput increased to 13,250 tonnes per day, and January 2008 results continue to show improvement.

Another area of the mine that is undergoing continuous improvement is the gold recovery plant. Our efforts in this area are focused on improving recovery and reducing costs. We have recently changed the fine carbon that we are using and this is improving plant recovery. In addition, an intermediate pond was constructed in 2007 and has a solution control system which will minimize dilution during the rainy season and allow for a more precise metallurgical balance of the heap.

Several construction projects were initiated in 2007 to improve overall mine performance. Construction of the new laboratory is complete and will be ready for use in April 2008. The stacking and conveying system is scheduled to be commissioned by the end of March 2008, as is the new mechanical shop and

warehouse. The leach pad expansion is also complete. The use of inter-lift liners will be tested in the second quarter of 2008. Many other smaller projects are also ongoing, such as the construction of the lime application systems, cement silos, diesel station and camp accommodation upgrades.

OUTLOOK

The Company expects to produce at least 30,000 ounces of gold in the first quarter of 2008 at a cash operating cost at or below \$400 per ounce of gold sold. Improvements in subsequent quarters of 2008 are expected, and the Company anticipates that 2008 will be characterized by record annual gold production, earnings and cash flows.

Laboratory metallurgical test work has shown that leach pad gold recovery could be well above 60%, significantly higher than the recoveries currently being achieved from the leach pad. The Company believes that the projects listed below are key to improving recoveries, and these will be the focus of 2008:

- Improved stacking techniques are being implemented to reduce compaction and improve percolation. Construction of the stacking equipment is complete and the entire conveyor belt system will be operational late in the first quarter of 2008;

The Company expects to produce at least 30,000 ounces of gold in the first quarter of 2008 at a cash operating cost at or below \$400 per ounce of gold sold.

- Agglomeration with cement at the rate of three kilograms per tonne of ore will improve percolation and reduce fines migration as well as the potential for solution to channel in the heap. Column testing of agglomerated ore at an independent test facility is nearing completion with promising results. When the cement agglomeration process is perfected, the crusher discharge size may be further reduced to increase gold recovery;
- The leach pad has been expanded to allow better cycling of leach solution. It is currently near its originally planned size but additional ore is being discovered and added to the reserves each year. Additional expansion will not be required for several years;
- A second train of carbon columns will be installed to enhance capacity and increase plant efficiency.

A key focus for the crusher circuit is to maintain its performance during the next rainy season. New ore chutes, designed to operate efficiently in high rainfall, will be installed before the June rainfall commences. Metal screens, while less resistant to wear, have proven to be more effective in periods of high rainfall, and these will be installed when required. The new configuration of the open pit will allow for more easy-to-process, silica-rich ore to be blended with sticky clay-altered oxide ore when it rains.

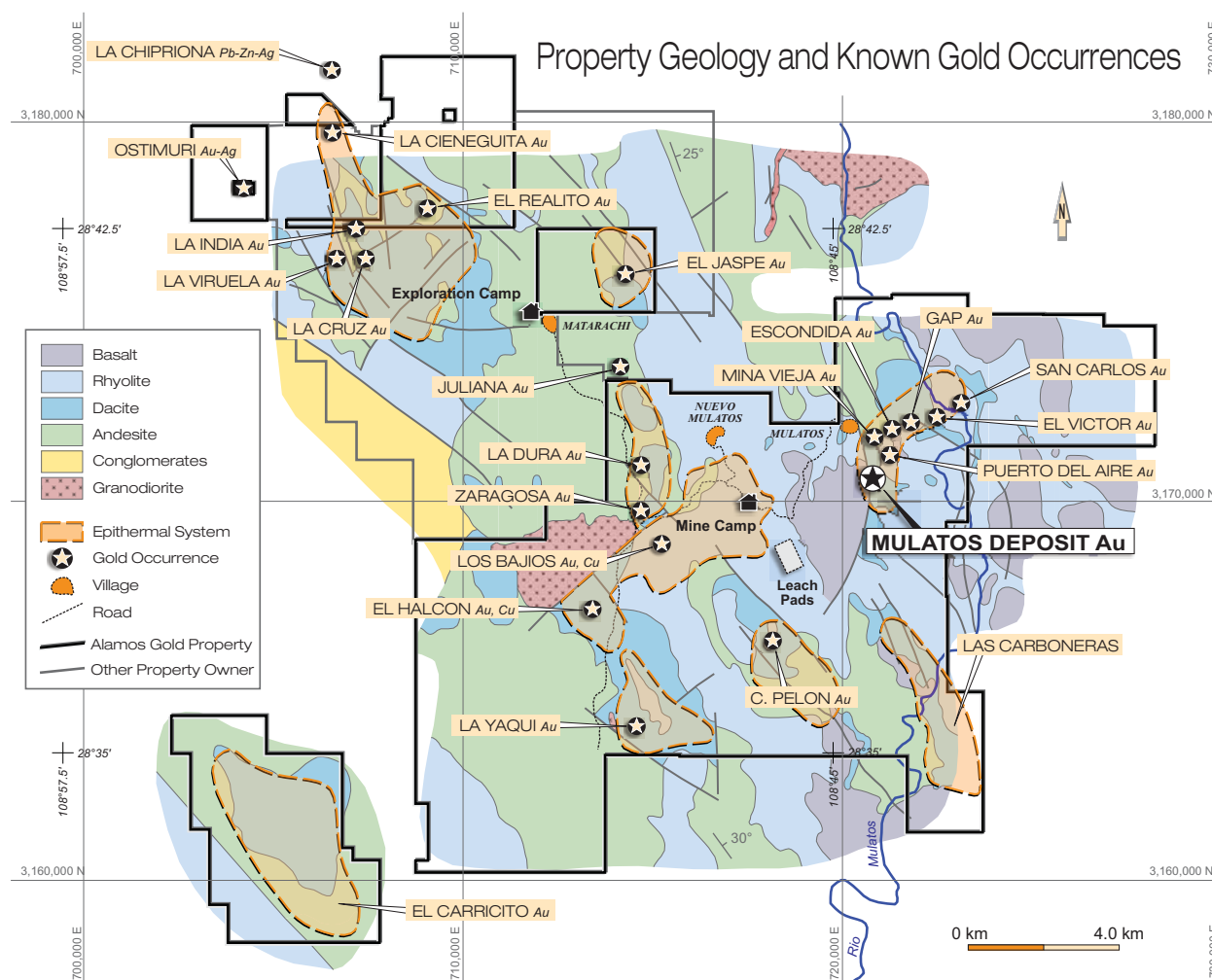
In order to reduce costs, a new truck shop and warehouse have been erected close to the open pit. This will allow for more maintenance work to be carried out on site. A new service station has been completed allowing for fuel to be purchased at franchise rates. This will provide a direct savings in fuel costs. A new laboratory will be completed in the first quarter of 2008 to provide higher capacity and improved accuracy and efficiency. The laboratory will be able to handle exploration assaying and sample preparation as well as production related assay and metallurgical work.

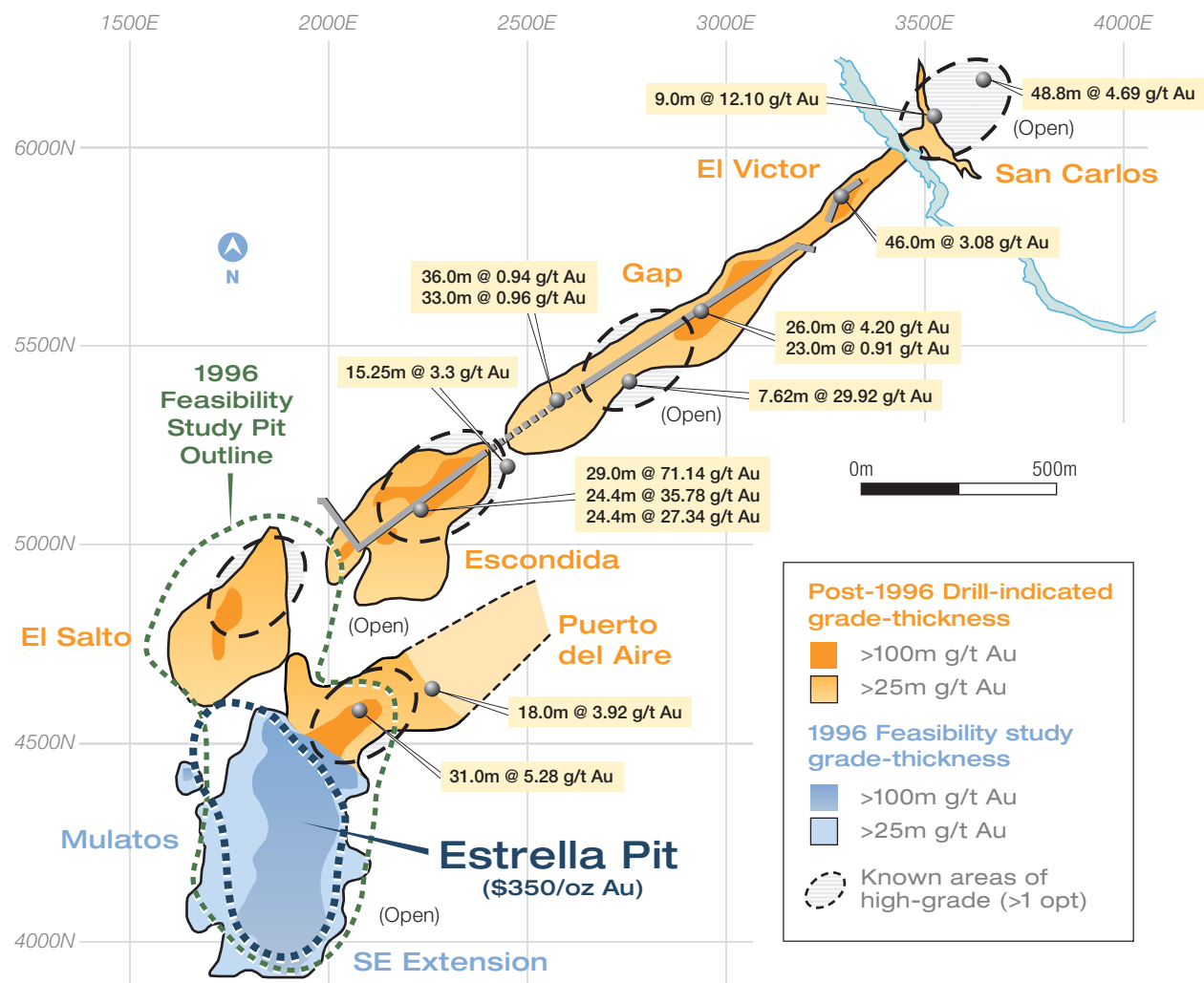
New ore reserves are being developed to replace mined reserves close to the Estrella Pit. In 2007 extensive drilling in the Puerto del Aire Zone, adjacent to the northeast wall of the pit, has provided encouraging results and may lead to a further pushback of the pit.

Milling options for the Escondida high grade ore are being reviewed. The feasibility study being carried out by Wardrop Engineering of Vancouver, Canada is due in the second quarter of 2008.



The Mulatos district is situated in the Sierra Madre Occidental volcanic province of Mexico, which hosts an extensive belt of precious metal deposits. This has been a prolific trend over the last decade, with close to nineteen million ounces of gold and 700 million ounces of silver resources added from exploration successes. The majority of the precious metal deposits of the Sierra Madre belt are silver-rich with by-product gold, however high-sulfidation deposits within the belt tend to be gold-rich, such as Mulatos and Sauzal.





The Mulatos gold district contains a minimum of thirty-five square kilometers of hydrothermal alteration similar to that hosting gold mineralization within the Mulatos deposit, a portion of which is currently being mined as the Estrella Pit. Alamos has exploration project areas coinciding with fourteen areas of intense alteration, the majority of which have historic mine workings or ore-grade drill intercepts. In addition to areas with surface evidence of mineralization, recent exploration has been successful at finding blind mineralization below barren post-mineral volcanic units. The main exploration focus to date has been to generate gold resources at the Mulatos deposit and adjacent deposits at Escondida, Gap, and El Victor, with the surrounding areas only recently benefiting from the use of modern exploration methods.

2007 EXPLORATION ACTIVITIES REVIEW

Exploration activities during 2007 were concentrated on projects near the existing mine with strong potential for increasing resources and reserves, translating into immediate value in the current high gold price environment. Successful exploration programs outlined an additional 250,000 ounces of gold in the Escondida area, and another 500,000 ounces in the measured and indicated category in the El Victor area. Exploration drilling extended the El Victor mineralized area an additional 500 meters into the Gap area, where the size of the mineralized area is permissible for a gold resource similar to that of the El Victor resource. In addition, high-grade (>30 g/t Au) intercepts were drilled in the Gap area, further increasing the likelihood of outlining an economic deposit for either surface or underground mining.

A large drilling program (35 holes, 7,713 meters) was completed for resource definition in the Puerto del Aire area, which adjoins the northeast portion of the Estrella Pit. Drill hole intercepts defined a concealed mineralized zone parallel to the Escondida-El Victor trend that is up to 150 meters wide and over 300 meters in strike length. Recent drilling has extended the zone an additional 225 meters to the northeast, where it remains open.

One of the most significant accomplishments in 2007 was the successful completion of three surface access agreements, permitting exploration into three high-priority project areas for the first time since 1997. Drilling at La Yaqui has produced immediate success outlining an oxide gold zone exposed at the surface with numerous ore-grade intercepts including 44.2 meters of 2.73 g/t Au and 30.0 meters of 3.33 g/t Au.

OUTLOOK FOR 2008

With the completion of the new surface access agreements, exploration in the district project areas during 2008 is a top priority. La Yaqui, Cerro Pelon, El Carricito, and El Halcon areas offer excellent opportunities for identifying and delineating ore-grade mineralization.

Near-mine resource expansion activities will also continue; a resource estimate is in progress to quantify the contained gold in the Puerto del Aire zone, as is additional exploration drilling to bring the Gap area mineralization into the resource category. Supplementary drilling is planned to further define the northeast extent of the Puerto del Aire zone and to pursue the high-grade intercepts at the edge of the San Carlos drill area.

Emphasis will also be placed on generating new exploration projects within the extensive areas of alteration in the district to increase the number of early stage projects. These areas are reported to contain historic mine workings and have not yet been subject to modern exploration techniques.

Projects of merit outside of the current land position will also be evaluated. While the Mulatos district offers numerous opportunities for stand-alone discoveries, it is recognized that efforts need to be undertaken elsewhere to support continued development of mineral resources and reserves. Evaluations for potential growth elsewhere via acquisitions and joint venture opportunities are being reviewed and will be accelerated.

PIPELINE OF PROJECTS AT ALL STAGES

	Stage I	Stage II	Stage III	Stage IV	Stage V	Feasibility
Grassroots Exploration Cerro Pelon • El Carricito						
Mineralized Intercepts El Jaspe • El Halcon • La Yaqui						
Step-out Drilling of Multiple Intercepts West Bajios • El Realito • San Carlos						
Resource and Reserve Definition El Victor • Gap • Puerto del Aire						
Mine Development						Escondida



Corporate Social Responsibility

Alamos recognizes that its operations impact local communities and that it has a responsibility to mitigate potential adverse effects while continuing to provide economic benefits through employment and training opportunities.

The Company has a comprehensive community relations program focused on improving the quality of life of its members. Company representatives are active in the communities to discuss issues and assess needs. In 2007, the Company funded a wide variety of projects and services, with a specific focus on education.

EDUCATION

Alamos continues to support the youth in the community by providing scholarships and ongoing economic support for education programs throughout Sahuaripa, the municipality in which the Mine is located. The Company awarded ten university scholarships in 2007, two high school scholarships and a sports scholarship to a young athlete from the town of Sahuaripa to compete at the national level. The Company also supports an additional scholarship program which was initiated by the President of the Municipality of Sahuaripa for primary grade schools.

The Company continues to participate in the “Adopt a School” program established by the Governor of the State of Sonora in order to improve the quality of education in the state. In 2007, Alamos adopted two more schools to bring the total number of schools it supports to five in the municipality of Sahuaripa, three of which directly support youth in the town of Mulatos.

The Company has also collaborated with the 2006 – 2009 Sahuaripa Municipal Development Plan, which addresses social development, health and educational needs of the rural residents of Sahuaripa.

ENVIRONMENT

The Company’s environmental department is responsible for monitoring and controlling the environmental impact of the Company’s activities. Where possible, the Company uses processes, practices, procedures and materials that avoid adverse effects on air, water and soil so as to maintain the environmental health of the communities in which it operates. Our objective is to exceed the compliance objectives of environmental regulatory bodies.

The Company has implemented water quality testing procedures designed to ensure that local drinking water is kept well above minimum quality standards. The Company also actively monitors air emissions at the Mine and at the nearest town in order to minimize any adverse impact of potential pollutants on the Company’s employees, contractors and local communities.

The Mine manages the impact of its operations on the local environment and has a remedial plan which will continue through to mine closure. Any adverse impact to local flora is mitigated through reforestation using the same local species. To date, the Company’s environmental department has maintained an inventory of almost 14,000 units of a diverse variety of plants including pine, oak, cactus and agave.

Alamos recognizes that its operations impact local communities and that it has a responsibility to mitigate potential adverse effects while continuing to provide economic benefits through employment and training opportunities.

In 2008, Alamos plans to establish both a solid waste management plan and a waste water treatment plant. Efficient use of natural resources helps keep costs down and encourages environmental awareness and protection, both of which contribute to strong relations with local communities.

HEALTH AND SAFETY

Operating with health and safety in mind is a requirement of our mining operations. At the Mine, our Safety Manager is responsible for overseeing risk management systems that are designed to protect employees, contractors and sub-contractors. Contractors and sub-contractors are required to follow specified health and safety standards under the terms of their contract, which can be terminated in the event of non-compliance. Training and regular review of procedures with supervisors and managers also form an important element of our health and safety management practices. Further, health and safety statistics and matters are reported to senior management and the Board of Directors on a weekly and monthly basis.

The Mulatos clinics program is aimed at promoting health and preventing disease through annual examinations, vaccines and diet intervention. The clinics program is available to employees, contractors, and members of the local community. A safety program has been implemented and is designed to protect workers against occupational risks through educational activities, pre-occupational examinations and accident-prevention training.

COMMUNITY RELATIONS

In response to the interests of the local community, Alamos is currently in the process of relocating the town of Mulatos. To date, over half of the residents of Mulatos have agreed to accept relocation assistance and compensation offered by the Company. Residents and homeowners in Mulatos receive a comprehensive package of benefits including the purchase of their homes and in certain cases, deferred monthly payments over periods ranging from three to five years. Alamos is committed to achieving a successful relocation that is mutually beneficial to both the relocated parties and the Company.





Management's Discussion & Analysis

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

This management's discussion and analysis ("MD&A") of the operating results and financial position of Alamos Gold Inc. and its subsidiaries ("the Company") is for the year ended December 31, 2007 compared with the restated year ended December 31, 2006. 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 10, 2008 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 audited consolidated financial statements referred to in this MD&A, and provides officers disclosure certifications filed with securities commissions on SEDAR. The audit committee reviews the audited consolidated financial statements and MD&A, and recommends approval to the Company's Board of Directors.

The Company's prior year 2006 financial statements have been restated to correct the accounting for future income taxes associated with an overstatement of future tax assets at the Company's Mexican operating subsidiary in 2006 and changes to future tax liabilities associated with the Company's acquisition of the Mulatos project. The adjustments to the 2006 financial statements reflect the specific application of accounting rules regarding future income taxes and have no impact on the Company's cash flows, net cash balances or financial position.

For further discussion regarding the restatement, refer to the Income Taxes section.

The MD&A should be read in conjunction with the audited 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, 2007 and restated 2006 audited consolidated financial statements for disclosure of the Company's significant accounting policies. Refer to Note 3 of the December 31, 2007 and restated 2006 audited consolidated financial statements for a discussion of changes in accounting policies and presentation.

NOTE TO U.S. INVESTORS

All references to mineral reserves and resources contained in this MD&A are determined in accordance with National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101") of the Canadian Securities Administrators ("CSA") and Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards. While the terms "mineral resource," "measured mineral resource," "indicated mineral resource," and "inferred mineral resource" are recognized and required by Canadian regulations, they are not defined terms under the Securities and Exchange Commission ("SEC") standards in the United States ("U.S."). As such, information contained in this MD&A concerning descriptions of mineralization and resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC. "Indicated mineral resource" and "inferred mineral resource" have a great

Management's Discussion & Analysis

During 2007, the Company focused on the first component of its business strategy of improving its operations and operating results. The Company's objective at the outset of 2007 was to increase annual gold production by 50% to approximately 150,000 ounces and to reduce cash operating costs to below \$300 per ounce.

amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category of resource. Investors are cautioned not to assume that all or any part of the mineral deposits in these categories will ever be converted into proven and probable reserves.

OVERVIEW

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

The Company's business strategy incorporates continually improving production, cash flows and profitability, increasing proven and probable reserves and advancement of the Company's numerous exploration projects.

During 2007, the Company focused on the first component of its business strategy of improving its operations and operating results. The Company's objective at the outset of 2007 was to increase annual

gold production by 50% to approximately 150,000 ounces and to reduce cash operating costs to below \$300 per ounce. While the Company was successful in achieving profitability and strong cash flows from operations in 2007, its first full year of commercial mining operations, significant operating challenges were encountered. Operating issues that adversely affected gold production in 2007 included the identification and processing of poor recovery material, lower than planned crusher throughput and metallurgical recoveries and periods of extreme rainfall, all of which adversely impacted mining operations.

The challenges in 2007 were systematically addressed and the Company has made a number of significant operating improvements that are expected to benefit the Company for the foreseeable future. Improved ore-handling procedures have been implemented which ensure that only ore with 50% or higher expected gold recovery is stacked on the leach pad. High grade, lower recovery ore is currently stockpiled while alternative treatment options are being considered. The additional crusher was installed in 2007 and has successfully resulted in the Company reaching targeted crusher throughput rates approaching 15,000 tonnes per day in late 2007, and achieving the desired crush size. The leach pad has been expanded and prepared for the stacking and conveying system.

Management's Discussion & Analysis

Modifications were also made to recovery plant processes to improve efficiencies. In addition, personnel and process improvements throughout 2007 have strengthened the Company's on-site expertise and operating abilities. As a result of these improvements, the Company exited 2007 with quarterly gold production, gold sales and cash flows at or near record levels.

Significant advancements related to the Company's strategic objective of production growth were achieved in 2007. Future production growth is expected both from higher recoveries at the current mining operations, from the planned Escondida mine, and from other deposits being developed. Capital projects initiated in 2007 that are expected to improve gold recoveries in 2008 include the stacking and conveying system which is expected to be operational late in the first quarter of 2008. During 2007, the results of a preliminary trade-off scoping study for the Escondida milling option were received and the Company initiated a full scale feasibility study, the results of which are expected in the second quarter of 2008.

Exploration and development success in 2007 included the discovery of a new oxide gold zone at the La Yaqui prospect, delineation of the Gap zone including local high-grade intercepts, resource definition drilling at Puerto del Aire, immediately adjacent to the existing pit, and the reporting of 0.5 million ounces of resources at El Victor.

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

Proven and probable reserves in the Estrella Pit as at December 31, 2006 were 31.9 million tonnes grading 1.64 grams per tonne of gold ("g/t Au") or approximately 1.7 million contained ounces of gold. The Company expects to announce a proven and probable reserve and resource update late in the first quarter of 2008.

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

2007 HIGHLIGHTS

During the year ended December 31, 2007, the Company:

- Increased gold sales 19% to 108,281 ounces compared to 91,220 ounces in 2006.
- Recorded revenues of \$74 million, an increase of 35% over 2006 revenues of \$54.7 million.
- Recognized earnings of \$2.9 million (\$0.03 per share), compared to a restated loss of \$0.3 million (\$0.07 per share) in 2006.
- Generated positive cash flows from operating activities of \$20.9 million (\$0.22 per share) compared to negative cash flows of \$0.7 million (\$0.01 per share) in 2006.
- Produced 106,200 ounces of gold at a cash operating cost of \$390 per ounce of gold sold (total cash cost inclusive of royalties of \$425).

Management's Discussion & Analysis

- Realized a cash margin per ounce of gold sold of \$259 compared to \$281 in 2006.
- Considerably strengthened its financial position through the repayment of its bank loan and increase in working capital to \$39.2 million.
- Reported a resource of 0.5 million ounces at El Victor.
- Announced the appointment of Mr. Eduardo Luna (Chairman, Silver Wheaton Minerals Inc., ex-President of Goldcorp (Mexico)) to the Company's Board of Directors.
- Increased quarterly gold sales 7% to 27,029 ounces compared to 25,270 in the same period of 2006.
- Increased quarterly cash flows from operating activities from \$0.6 million in the fourth quarter of 2006 to \$9.2 million.

RESULTS OF OPERATIONS

Gold production in 2007 of 106,200 ounces represented a 5% increase over 2006 gold production of 101,170 ounces. Higher gold sales in 2007 of 108,281 ounces compared to 91,220 ounces in 2006 resulted in significant increases in revenues, cash flows and earnings in 2007. Reported gold production is subject to final refinery settlement. The table below outlines key quarterly production indicators during 2007:

Production summary	Q1	Q2	Q3	Q4	2007
Ounces produced ⁽¹⁾	24,940	28,200	21,670	31,390	106,200
Ore mined (tonnes)	1,035,000	873,000	814,000	1,219,000	3,941,000
Waste mined (tonnes)	2,321,000	2,230,000	2,784,000	2,524,000	9,859,000
Total mined (tonnes)	3,356,000	3,103,000	3,598,000	3,743,000	13,800,000
Ore crushed (tonnes)	1,050,000	909,000	838,000	1,218,000	4,015,000
Ore mined per day (tonnes)	11,400	9,600	9,000	13,300	10,800
Ore crushed per day (tonnes)	11,500	10,000	9,200	13,300	11,000
Waste-to-ore ratio	2.24	2.55	3.42	2.07	2.50
Grade (g/t Au)	1.73	1.82	2.08	2.17	1.96

(1) Reported gold production for Q1-Q3 2007 has been adjusted to reflect final refinery settlement. Reported gold production for Q4 2007 is subject to final refinery settlement.

Management's Discussion & Analysis

These efforts benefited operations in the fourth quarter as the Company reported gold production of 31,390 ounces representing a 45% improvement over gold production in the previous quarter.

Lower than budget gold production in 2007 was due primarily to lower than planned crusher throughput and gold recovery resulting in part from the following:

- A portion of the material mined from the south end of the pit and stacked on the leach pad in late 2006 and early 2007 was subsequently determined to have low recovery characteristics.
- Mine operations were suspended for a period of ten days in May 2007 during negotiations with the local community regarding relocation of the town of Mulatos.
- Record rainfall in the third quarter of 2007 caused a reduction in crushing throughput to significantly below budgeted levels.

As a result of the challenges encountered throughout the year, the following initiatives were implemented and are expected to improve both crusher throughput and recovery:

- A new crusher was commissioned in July 2007 which has resulted in steadily increasing monthly crusher throughput in the latter half of the year with December 2007 throughput reaching 14,000 tonnes per day at the optimal crusher discharge size.
- New ore classification procedures implemented in 2007 ensure that only high-recovery material is processed at this time.

- In-pit drilling and metallurgical testing has improved the Company's ability to forecast gold production and specify crusher discharge size by type of ore for optimal recovery.
- The stacking and conveying system is expected to be operational in the first quarter of 2008 and will eliminate truck loading of the leach pad which is expected to improve leach pad percolation and ultimately gold recoveries.
- Independent metallurgical testing was commissioned to assess the effects of cement agglomeration and various other factors on gold recoveries. The Company is in the process of evaluating the results of this testing. However, preliminary review suggests that cement agglomeration could contribute to higher realized gold recoveries.

These efforts benefited operations in the fourth quarter as the Company reported gold production of 31,390 ounces representing a 45% improvement over gold production in the previous quarter. The Company anticipates that in 2008 it will be able to maintain or exceed the level of crusher throughput and gold production achieved in the fourth quarter of 2007.

Management's Discussion & Analysis

The table below compares costs per tonne in the fourth quarter and in 2007 to the same periods of 2006:

Costs per tonne summary	Q4 2007	Q4 2006	Change %	2007	2006	Change %
Mining cost per tonne of material (ore and waste)	\$1.28	\$0.80	60%	\$1.34	\$1.12	20%
Waste-to-ore ratio	2.07	2.84	(27%)	2.50	2.26	11%
Mining cost per tonne of ore	\$3.93	\$3.04	29%	\$4.67	\$3.66	28%
Crushing cost per tonne of ore	\$2.16	\$2.38	(9%)	\$2.51	\$1.84	36%
Processing cost per tonne of ore	\$2.18	\$2.46	(11%)	\$2.39	\$1.85	29%
Mine administration cost per tonne of ore	\$2.16	\$1.02	112%	\$1.70	\$1.10	55%
Total cost per tonne of ore	\$10.43	\$8.90	17%	\$11.27	\$8.45	33%

The comparison of costs per tonne in the fourth quarter of 2007 to the fourth quarter of 2006 is particularly indicative of total costs because tonnes mined and crushed in the fourth quarter of 2007 were consistent with the prior year period. Total cost per tonne of ore in the fourth quarter of 2007 was 17% or \$1.53 higher than in the comparable period due primarily to a 112% or \$1.14 increase in mine administration cost per tonne of ore and a 29% or \$0.89 increase in mining cost, offset by lower crushing and processing cost per tonne of ore. The majority of the increase in mine administration cost per tonne of ore is attributable to one-time non-recurring charges related to legal and administrative costs associated with the Company's ongoing planned relocation of the town of Mulatos.

Total cost per tonne of ore in 2007 was 33% higher than in 2006 due to 15% less tonnes stacked on the leach pad and a 11% increase in the waste-to-ore ratio. Crusher throughput was lower than budgeted throughout the 2007 year. This restricted the Company's mining activities, resulting in a 14% reduction in tonnes mined in 2007 compared to the prior year. The mining department used excess capacity to mine additional waste in 2007. Due in part to the progress in mining waste in 2007, the waste-to-ore ratio in 2008 is expected to be approximately 50% lower, resulting in reduced mining costs.

Management's Discussion & Analysis

Mining cost per tonne of material was \$1.34 in 2007, 20% higher than in 2006. Higher mining costs in 2007 were primarily the result of scheduled maintenance on the Company's equipment fleet. Component rebuilds and other maintenance costs are expensed as incurred and have increased significantly as presented in the table below.

Processing costs include expenditures incurred with respect to the leach pad, gold recovery plant and refining activities.

	2007 (\$000)	2006 (\$000)	Change (\$000)	Change %
Haul trucks	3,703	1,193	2,510	210%
Loading equipment	2,315	1,314	1,001	76%
Auxiliary equipment	2,548	1,623	925	57%
Total maintenance costs	8,566	4,130	4,436	107%
Total mined (tonnes)	13,800,000	14,935,000	(1,135,000)	(8%)
Cost per tonne mined	\$0.62	\$0.28	\$0.34	121%

The Company expects to incur these levels of major maintenance costs every two to three years (determined based on hourly usage). As the Company acquired the majority of its equipment fleet at the same time, mine operating costs in 2007 included abnormally high maintenance costs as engines, transmissions and other key components all reached the end of their useful operating life at the same time. Maintenance costs related to haul trucks, loading and auxiliary equipment are budgeted to be approximately \$6 million in 2008 compared to the \$8.6 million spent in 2007. Overall, mining cost per tonne of material is expected to increase in 2008 with the budgeted mining of less material.

Mining cost per tonne of ore in 2007 was \$4.67, or 28% higher than in 2006. This increase is explained by higher scheduled maintenance costs, a higher waste-to-ore ratio and fewer tonnes of ore mined in

2007. The waste-to-ore ratio in 2007 was 2.50, or 11% higher than in 2006. In 2007, a total of 3,941,000 tonnes of ore were mined which was 14% lower than the 4,577,000 tonnes of ore mined in 2006. Mining cost per tonne of ore in 2008 is expected to decrease as a result of lower scheduled maintenance and a substantially lower waste-to-ore ratio.

Crushing cost per tonne of ore in 2007 was \$2.51 or 36% higher than in 2006. Increases in crushing costs on a per-tonne basis are due primarily to the Company's efforts in 2007 to enhance preventative maintenance and to maintain the optimal crusher discharge size. In addition, maintenance and related operating costs associated with the new crusher that was commissioned in July 2007 are not reflected in 2006 comparative costs. Crushing cost per tonne of ore decreased in the fourth quarter of 2007 to \$2.16 which in part reflects the Company's success at

Management's Discussion & Analysis

achieving higher crusher throughput. Crusher throughput improved consistently in the fourth quarter of 2007 from 12,300 in October to 14,000 tonnes of ore crushed per day in December. The Company expects similar levels of spending in the crushing department in 2008, however, the per tonne cost should decrease as crusher throughput is budgeted to increase approximately 20% in 2008.

The processing cost per tonne of ore in 2007 of \$2.39 increased 29% over prior period levels. Processing costs include expenditures incurred with respect to the leach pad, gold recovery plant and refining activities. Higher per unit costs are partially a function of 15% lower tonnage throughput in 2007, combined with cost increases for certain mining processing consumables such as lime and cyanide. Cyanide costs in 2007 were approximately 25% higher than in 2006. In addition, lime consumption in 2007 increased significantly due to the type of ore being stacked during the year. The Company was adversely affected by increased costs of transporting lime to the mine throughout the year. Construction and installation of the stacking and conveying system is ongoing with commissioning expected late in the first quarter of 2008. The Company expects that the mechanization of the ore-stacking and lime-application processes will result in cost savings. However, the Company is in the process of evaluating the option of agglomeration which, if undertaken, would result in the addition of cement costs to the Company's processing cost structure. Cost increases associated with cement agglomeration would be significant but would be partially offset by lower lime costs resulting from reduced consumption. The Company expects that

cement agglomeration would result in higher gold recoveries. Overall, the Company expects processing cost per tonne of ore to increase marginally in 2008.

Mine administration cost per tonne of ore in 2007 was \$1.70 compared with \$1.10 in 2006. Significant changes to the Company's cost structure in 2007 included increases in the Company's community and public relations spending in connection with the planned relocation of the town of Mulatos. These changes have resulted in actual costs being substantially higher than initially planned. The Company expects mine administration cost per tonne of ore in 2008 to be consistent with the actual cost in 2007.

Cash operating cost per ounce of gold sold increased 33% to \$390 in 2007 compared to \$294 in 2006. The Company's reported cash operating costs per ounce are significantly affected by gold recoveries. Throughout 2007, daily bottle roll tests of crushed ore composites have shown recoveries in excess of what the Company has been able to achieve from the leach pad. The average bottle roll recovery in the fourth quarter of 2007 was 66%, with 70% average daily recovery in December 2007. These recovery results are supported by column testing. Column testing of the December composite crushed ore samples show recovery of 50% after only 22 days. October and November 2007 column tests show recoveries of in excess of 70% after 75 and 56 days respectively. Recoveries indicated by metallurgical testing in the laboratory have not been achieved from the leach pad due to various factors, including crush size and leach pad percolation, both of which are discussed in greater detail below.

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Crush size is a key determinant of ultimate gold recovery for the Estrella deposit. Metallurgical studies have indicated that gold recovery rates are sensitive to crush size with finer crushed material generally yielding higher gold recovery. The optimal crush size for the Estrella deposit is 80% passing 3/8ths of an inch. However, the optimal crush size varies by ore type. Oxide material can be more coarsely crushed without a significant adverse effect on gold recovery. During the second quarter of 2007, the Company was able to achieve the optimal crush size. However, in the latter half of the year, the average crush size of ore stacked on the leach pad was increased to 80% passing 7/16ths of an inch. This larger crush size was planned as a result of mining a comparatively high percentage of clay-altered oxide material in the third and fourth quarters of the year. The new crusher was commissioned in July 2007 and has enabled the Company to properly control and adjust the crusher discharge size in order to optimize gold recovery.

Other key determinants of the level of gold recovery include leach pad percolation, solution application rates, pH levels and performance of the gold recovery plant. The upper lifts of the current leach pad are approaching seventy meters in height. The Company believes that blinding and channeling of solution flow in the leach pad may have occurred, possibly caused by the compaction of fine crushed ore, thereby negating the benefits of achieving the optimal crusher discharge size. The Company expects that conveying and stacking ore on the leach pad will reduce any potential compaction associated with truck-loading ore on the pad. Further benefits are expected through

the use of inter-lift liners to reduce effective bench heights and an expanded pad area to allow for longer leach times before a new lift is added. In addition, an independent research facility was commissioned in 2007 to perform column tests to assess the impact of cement agglomeration, varying solution flow rates and pH levels and crush size on ultimate gold recoveries. Preliminary results of this testing indicate a correlation between agglomeration and improved recovery. The Company will evaluate the final test results and will proceed accordingly in order to improve gold recoveries. Increases in gold recovery rates are expected to reduce cash operating costs per ounce.

CAUTIONARY NON-GAAP STATEMENTS

The Company believes that investors use certain indicators to assess gold mining companies. They are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with GAAP. "Cash flow from operating activities before changes in non-cash working capital" is a non-GAAP performance measure which could provide an indication of the Company's ability to generate cash flows from operations, and is calculated by adding back the change in non-cash working capital to "Cash provided by (used for) operating activities" as presented on the Company's consolidated statements of cash flows. "Mining cost per tonne of ore" is a non-GAAP performance measure which could provide an indication of the mining and processing efficiency and effectiveness at the Mine. It is determined by dividing the relevant mining and processing costs by the tonnes of ore processed in the period. "Cost per tonne of ore" is usually affected by operating

Management's Discussion & Analysis

The new crusher was commissioned in July 2007 and has enabled the Company to properly control and adjust the crusher discharge size in order to optimize gold recovery.

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

cost per ounce" reflects the cash operating cost allocated from in-process and dore inventory associated with ounces of gold sold in the period. "Cash operating cost per ounce" may vary from one period to another due to operating efficiencies, waste-to-ore ratios, grade of ore processed and gold recovery rates in the period. "Total cash cost per ounce" includes "cash operating cost per ounce" plus applicable royalties.

FINANCIAL HIGHLIGHTS

A summary of the Company's financial results for the three-month periods and years ended December 31, 2007 and 2006 is presented below:

	Q4 2007	Q4 2006 Restated	2007	2006 Restated
Cash provided by operating activities before changes in non-cash working capital (000) ⁽¹⁾	\$5,011	\$4,219	\$20,666	\$17,162
Changes in non-cash working capital (000)	\$4,204	(\$3,581)	\$193	(\$17,826)
Cash provided by (used for) operating activities (000)	\$9,215	\$638	\$20,859	(\$664)
Earnings before income taxes (000)	\$917	\$871	\$6,374	\$2,831
Earnings (loss) (000)	(\$260)	(\$1,469)	\$2,934	(\$349)
Earnings (loss) per share				
– Basic and diluted	(\$0.00)	(\$0.02)	\$0.03	(\$0.07)
Weighted average number of common shares outstanding				
– Basic	94,429,000	93,613,000	94,065,000	87,607,000
– Diluted	94,429,000	93,613,000	96,427,000	87,607,000

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

Management's Discussion & Analysis

Cash flows from operations increased throughout 2007 as the Company achieved a higher realized gold price, increased the number of ounces of gold sold and has reduced the relative level of its investments in leach pad, dore and parts and supplies inventories.

In the fourth quarter of 2007, the Company generated \$9.2 million in cash from operating activities compared to \$0.6 million in the fourth quarter of 2006. The majority of this increase was due to the collection of Mexican value-added tax receivables in the fourth quarter of 2007 compared to net cash investments in gold and parts and supplies inventory in the fourth quarter of 2006.

In 2007, cash flows from operating activities were \$20.9 million (\$0.22 per share) compared to negative cash flows from operating activities of \$0.7 million (\$0.01 per share) in 2006. Cash flows from operations increased throughout 2007 as the Company achieved a higher realized gold price, increased the number of ounces of gold sold and has reduced the relative level of its investments in leach pad, dore and parts and supplies inventories.

Changes in non-cash working capital accounted for the majority of the increase in the Company's cash flows from operations in 2007. In 2007, the Company invested \$5.1 million in leach pad and parts and supplies inventories, compared to \$16.0 million in 2006.

The number of ounces in the Company's leach pad inventory has been stable throughout 2007; however the cost per ounce has increased. Approximately \$4.6 million of the investment in inventories reflects higher cost ounces from 2007 replacing lower cost ounces that have been removed from leach pad inventory as produced dore. In addition, throughout 2007 the Company recovered a net amount of \$3.3 million of Mexican value-added taxes, compared to a net cash out-flow of \$2.5 million in 2006.

The Company recognized earnings before income taxes of \$6.4 million in 2007 compared to \$2.8 million in 2006. Earnings after income taxes increased \$3.2 million from a restated loss of \$0.3 million in 2006 to earnings of \$2.9 million in 2007. For a discussion of the restatement of the 2006 financial statements, refer to the section entitled Income Taxes below.

Management's Discussion & Analysis

GOLD SALES

Details of gold sales are presented below:

	Q4 2007	Q4 2006	2007	2006
Gold sales (ounces)	27,029	25,270	108,281	91,220
Gold sales revenues (000)	\$20,683	\$15,300	\$74,028	\$54,655
Realized gold price per ounce	\$765	\$605	\$684	\$599
Average gold price for period (London PM Fix)	\$786	\$613	\$695	\$604

Gold sales revenues increased 35% in the fourth quarter of 2007 compared to the same period of 2006 as a result of a 26% increase in the realized gold price per ounce and a 7% increase in the number of ounces sold.

Gold sales revenues were \$74.0 million in 2007, 35% higher than gold sales revenues of \$54.7 million in 2006. The increase in gold sales revenues is the result of a combination of a 19% increase in the number of ounces sold and a 14% increase in the Company's realized gold price. The number of ounces sold increased in 2007 as a result of higher gold production and improved timing of refinery settlements.

The Company realized an average gold price of \$684 per ounce in 2007, compared to an average London PM Fix spot gold price of \$695 during the period. The Company generally contracts for the sale of gold twice monthly, but may fix the price at various points in a quarter with the intent of achieving the average

London PM Fix spot gold price for the quarter. Periodically, the Company may fix the selling price by entering into gold contracts to lock in a favorable price or provide protection from downside risk. In the steadily increasing gold price environment, the Company's realized gold price per ounce has generally been lower than the average London PM Fix spot gold price.

ASSESSMENT OF GOLD MARKET

The price of gold has shown considerable strength early in 2008. The Company expects its realized gold price in the first quarter of 2008 to approach \$900 per ounce, a 32% increase over the realized gold price in 2007. At March 10, 2008 the gold price had increased to approximately \$975 per ounce. The Company is fully leveraged to increases in the price of gold. At current gold prices, the Company's cash margin per ounce of gold sold is approximately double the cash margin realized in 2007 of \$259 per ounce.

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OPERATING EXPENSES AND OPERATING MARGINS

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

	2007	2006 Restated	Change %
Gold production (ounces) ⁽¹⁾	106,200	101,170	5%
Gold sales (ounces)	108,281	91,220	19%
Cash operating costs (000) ⁽²⁾	\$42,195	\$26,856	57%
- Per ounce sold	\$390	\$294	33%
Royalties and production taxes (000) ⁽³⁾	\$3,776	\$2,175	74%
Total cash costs (000) ⁽⁴⁾	\$45,971	\$29,031	58%
- Per ounce sold	\$425	\$318	34%
Amortization (000)	\$11,000	\$8,091	36%
Accretion of asset retirement obligations (000)	\$200	\$157	27%
Total production costs (000) ⁽⁵⁾	\$57,171	\$37,279	53%
- Per ounce sold	\$528	\$409	29%
- Realized gold price per ounce	\$684	\$599	14%
- Realized cash margin per ounce ⁽⁶⁾	\$259	\$281	(8%)

(1) Reported gold production is subject to final refinery settlement.

(2) "Cash operating costs" is a non-GAAP measure which includes all direct mining costs, refining and transportation costs and by-product credits. "Cash operating costs" is equivalent to mining and processing costs as reported in the Company's financial statements.

(3) Production royalties are included as of April 1, 2006 at 5% of net precious metals revenues (as determined in accordance with the royalty agreement).

(4) "Total cash costs" is a non-GAAP measure which includes all "cash operating costs" and royalties and production taxes. "Total cash costs" is equivalent to mining and processing costs and royalties as reported in the Company's financial statements.

(5) "Total production costs" is a non-GAAP measure which includes all "total cash costs", amortization, and accretion of asset retirement obligations. "Total production costs" is equivalent to mining and processing costs, royalties, amortization and accretion of asset retirement obligations as reported in the Company's financial statements.

(6) Realized cash margin per ounce is a non-GAAP measure which is calculated as the difference between the Company's gold sales and mining and processing and royalty expenses as reported in the Company's financial statements.

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Production from the Mine is subject to a sliding scale production royalty commencing on commercial production which was established by agreement to be as at 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. The royalty is calculated based on the daily average London PM Fix gold market prices, not actual prices realized by the Company. With the achievement of commercial production on April 1, 2006, the Mine's production to a maximum of two million ounces of gold is subject to royalty. As at December 31, 2007, the royalty was paid or accrued on approximately 178,000 ounces of applicable gold production. Royalty expense for 2007 was \$3.8 million compared to \$2.2 million in 2006.

EXPLORATION

Exploration costs charged to operations during the 2007 year totaled \$2,320,000 compared with \$4,319,000 in the same period of 2006. Exploration costs in 2007 related primarily to drilling in the Gap and La Yaqui areas, costs associated with modeling the El Victor resource area, administrative expenses and property tax payments. In 2006, the Company incurred comparatively higher exploration costs with respect to drilling at the El Victor, San Carlos, El Realito and Los Bajios projects.

The Company's accounting policy for exploration costs requires that exploration spending that does not meet the criteria for mine development is expensed as incurred. In addition to the exploration expense recognized in 2007 of \$2,320,000, approximately \$675,000 of costs related to the Puerto del Aire zone immediately adjacent to the existing Estrella Pit and

certain costs related to Escondida were capitalized to mine development.

CORPORATE AND ADMINISTRATIVE

Corporate and administrative expenses of \$3,516,000 in 2007 were 2% lower than the \$3,604,000 incurred in 2006. The key components of this expense are detailed below:

	2007 (\$000)	2006 (\$000)
Salaries and management fees	1,715	1,856
Legal and audit	414	342
Office and administration	685	498
Shareholder communications	275	392
Travel and accommodation	283	370
Trust and filing fees	144	146
	3,516	3,604

Salaries and management fees of \$1,715,000 in 2007 were 8% lower than in 2006 due to lower bonuses paid or accrued in 2007.

Legal and audit costs of \$414,000 in 2007 were 21% higher than in 2006 due primarily to increases in audit fees related to the Company's Mexican operating subsidiary. The Company's deregistration from the SEC in June 2007 has resulted in significantly lower compliance and related costs than otherwise would have been incurred.

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

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Corporate and administrative costs in 2008 are expected to be between \$4.0 and \$4.5 million, exclusive of unusual items. The anticipated increase in 2008 is the result of higher expected administration costs in Mexico.

STOCK-BASED COMPENSATION

Stock-based compensation expense in 2007 was \$3,425,000 compared to \$1,820,000 in 2006. The value of stock-based compensation expense is added to the contributed surplus account within shareholders' equity, resulting in no net effect on total shareholders' equity.

	2007	2006
Number of stock options granted	2,472,000	1,235,000
Average exercise price of options granted (CDN\$)	\$7.22	\$8.89
Value of stock based compensation (as determined by Black-Scholes option pricing model)	\$6,060,000	\$3,625,000

The Company implemented vesting provisions for all stock option grants since December 2005 in order to promote employee retention. Under the vesting provisions, 20% of all stock options granted vest on the date of grant and 20% at each subsequent six-month period. The vesting provisions result in the market value of stock option grants being charged to expense in accordance with the vesting terms of the option. The higher stock-based compensation expense in 2007 is due primarily to the increase in the number of options granted in 2007 compared to in 2006.

Stock-based compensation expense in 2008 related to options outstanding at December 31, 2007 is expected to be approximately \$3.3 million. Any additional grants in 2008 will increase this expense.

ACCRETION OF ASSET RETIREMENT OBLIGATION

The asset retirement obligation on the Company's balance sheet of \$3,460,000 at December 31, 2007 reflects the discounted value of the amount the Company expects to incur on closure of the Mine for reclamation and reforestation activities. The Company's estimate of the expected future costs associated with mine closure and reclamation was prepared internally by management. Accretion expense represents the increase in the liability due to the passage of time. Accretion of asset retirement obligation expense in 2007 was \$183,000 compared to \$157,000 in 2006. Changes in the Company's estimate of expected future cash outflows at the end of the life of the mine resulted in an increase to the asset retirement obligation liability at year-end. Accretion expense in 2008 is expected to increase from 2007 levels in conjunction with the higher liability. The Company is in the process of obtaining an independent mine closure plan complete with an assessment of the expected future closure and reclamation costs. The result of this assessment could vary significantly from the Company's current estimates.

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

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required to recognize employee future benefit liabilities associated with its Mexican work force. The Company hired an independent consultant to review and calculate the liability for seniority premiums and termination benefits in accordance with Mexican Labor Law. As at December 31, 2007, the Company accrued an employee future benefit liability of \$555,000. Employee future benefits expense of \$205,000 in 2007 is a non-cash charge reflecting the increase in the present value of the employee future benefit liability.

INTEREST INCOME

Interest income in 2007 was \$202,000, compared to \$346,000 in 2006 due to higher average cash balances throughout 2006. The Company expects to earn higher interest income in 2008 as the Company increases its cash holdings resulting from both increased gold sales and a higher realized gold price.

INTEREST EXPENSE

Interest expense for the years ended December 31, 2007 and 2006 is composed of the following:

	Rate	2007	2006
Convertible debentures (\$000)	5.5%	76	1,184
Capital lease obligations (\$000)	LIBOR + 4.1%	818	654
Bank loan (\$000)	LIBOR + 2.25% (drawn)	432	321
		1,326	2,159

Interest expense on the convertible debenture of \$76,000 in 2007 is substantially lower than in the same period of 2006. In June of 2006, approximately 97% of the outstanding convertible debentures were converted into common shares of the Company. Interest expense related to the remaining outstanding

convertible debentures is approximately \$80,000 annually.

Interest expense on capital lease obligations in 2007 was \$818,000 compared to \$654,000 in 2006. The increase in interest expense related to capital leases reflects the additional two capital leases that were entered into in 2007.

Interest on the Company's revolving credit facility is charged at LIBOR + 2.25% on the drawn portion after August 25, 2007 (LIBOR + 2.75% prior thereto). In addition, a standby charge equal to 0.75% of the undrawn balance is charged. Higher interest expense was incurred in 2007 as the average outstanding bank loan balance was higher in 2007 than in 2006. In the fourth quarter of 2007, the Company was able to repay the \$7 million outstanding balance of the bank loan.

FINANCING CHARGES

Financing charges in 2006 primarily represented the amortization of deferred financing costs associated with the Company's convertible debenture liability. All deferred financing costs were written off in June 2006 in conjunction with the early conversion of the majority of the outstanding convertible debentures.

ACCRETION OF CONVERTIBLE DEBENTURE DISCOUNT

Accretion of the convertible debenture discount in 2007 of \$69,000 compared to \$960,000 in 2006. The early conversion of the convertible debentures in June of 2006 resulted in a 97% reduction in future accretion expenses related to the convertible debenture. Accretion expense is expected to continue to be minimal in future periods.

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FOREIGN EXCHANGE LOSS

The Company recognized a foreign exchange loss of \$48,000 in 2007 compared to \$922,000 in 2006. The foreign exchange loss in 2007 was composed of a \$45,000 foreign exchange gain in Canada and a \$93,000 foreign exchange loss in Mexico.

The Company realized a foreign exchange gain in Canada in 2007 as the strengthening of the Canadian dollar compared to the United States dollar throughout 2007 resulted in a gain on the Company's Canadian dollar cash holdings. This gain was partially offset by a foreign exchange loss on the Company's convertible debenture liability which is denominated in Canadian dollars.

The foreign exchange loss in Mexico in 2007 was due primarily to realized losses on the collection of net Mexican peso-denominated monetary assets. The Company's Mexican value-added tax receivable balance is denominated in Mexican pesos. The value of the Mexican peso compared to the United States dollar at December 31, 2007 was consistent with the prior year-end.

In 2006, the Company's significant foreign exchange loss of \$922,000 related to its exposure to changes in the value of the Canadian dollar compared to the United States dollar as a result of its CDN\$50 million convertible debenture liability, less a portion of that liability that was hedged. This exposure was substantially reduced with the early conversion of 97% of the outstanding convertible debentures in June 2006.

The Company's exposure to foreign exchange gains or losses on its Canadian dollar-denominated financial assets and liabilities in 2008 is expected to

be minimal, as the Company's only significant Canadian dollar-denominated liability is the outstanding convertible debenture in the amount of CDN\$1,471,000, which is partially offset by the Company's Canadian dollar cash holdings.

Significant volatility in the value of the Mexican peso compared to the United States dollar could result in foreign exchange gains or losses. However, in the latter half of 2007 the Company's exposure to volatility in the value of the Mexican peso was significantly reduced as the majority of the Company's Mexican peso-denominated value-added tax receivable was collected.

INCOME TAXES

Current tax expense in 2007 of \$545,000 compared to \$125,000 in 2006 and represents a 10% withholding tax on inter-company interest charged by the Company's Canadian parent to the Mexican operating subsidiary. Withholding tax charges are dependent on prevailing interest rates and the timing of repayment of inter-company loans.

Future income tax expense in 2007 was \$2,895,000 compared to restated future income tax expense of \$3,055,000 in 2006. The Company has restated its 2006 financial results to reflect a \$2,055,000 increase to its future tax expense with a corresponding increase to its future income tax liability. Following a tax audit of the Company's Mexican operating subsidiary, it was determined that its recorded tax assets were overstated as at December 31, 2006. It was also noted that certain future tax liabilities, in part relating to a prior acquisition, were required to be recognized, with a corresponding adjustment to

Management's Discussion & Analysis

mineral property, plant and equipment. As a result of this latter adjustment, amortization in both 2007 and 2006 has increased slightly on an after-tax basis. The Company has determined that there is no material net adjustment to the deficit as at January 1, 2006. The future tax liability established in relation to the prior acquisition is expected to reverse as the mine property is amortized, resulting in a future tax benefit in subsequent periods. These adjustments have no effect on the Company's net cash balances or cash flows for the current or previous reporting periods. The Company is expected to be cash taxable in 2008, consistent with previous expectations. A summary of the adjustments resulting from the restatement is presented as Note 18(a) of the 2007 audited consolidated financial statements.

The Company has provided for future income taxes in 2007 and 2006 resulting in estimated effective tax rates of 54% and 112%. The restated effective tax rate in 2006 increased from the rate previously reported as it does not reflect the benefit from loss carry-forwards to the extent previously expected. The effective rate in 2007 is higher than the statutory rate due primarily to stock-based compensation expense, which is not deductible for tax purposes and certain inflation gains in Mexico which are taxable. The effect of stock-based compensation is disproportionately higher in 2006 because the stock-based compensation expense is significant in relation to earnings before income tax. Statutory tax rates in Mexico and Canada are 28% and 36% respectively. Canadian tax rates are expected to decline in future years as a result of enacted legislation.

Since the Company uses the liability method of computing its income taxes, there are factors which may result in changes to the valuation of tax assets and liabilities. These factors include changes in foreign exchange rates and changes in future income tax rates that will affect the effective tax rate as they are not dependent on computed earnings before income tax or the statutory rate. In addition, the Company is subject to inflation gains on its net monetary liabilities in Mexico, which are not reported in earnings as calculated for accounting purposes, whether those liabilities are denominated in Mexican pesos or United States dollars. If these adjustments are significant in relation to earnings before income tax, the resulting effective tax rate may be materially different from the statutory rate.

Mexico recently enacted a new tax law which replaces an asset tax as a means of obtaining tax revenue from an operating company which might not report earnings on the basis of generally accepted accounting principles. While the new law is not expected to affect the Company in 2008, the Company will be required to evaluate the new law in 2009 and beyond when financial forecasts of changes in capital expenditures and production from the Escondida project are known with more certainty.

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SUMMARY OF QUARTERLY RESULTS

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

	Q1 2006	Q2 2006	Q3 2006	Q4 2006 (Restated)	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Gold production (ounces)	20,950	23,620	24,880	31,720	24,940	28,200	21,670	31,390
Gold sales (ounces)	22,670	23,780	19,500	25,270	27,200	30,880	23,170	27,029
Gold sales (\$000)	12,490	14,700	12,165	15,299	16,958	20,797	15,590	20,683
Earnings (loss)								
from operations (\$000)	2,285	2,188	1,634	1,175	2,558	2,941	1,062	830
Earnings (loss) (\$000)	572	(287)	835	(1,469)	1,189	1,888	117	(260)
Earnings (loss) (\$ per share)								
– Basic and diluted	0.01	(0.08)	0.01	(0.01)	0.01	0.02	0.00	(0.00)

The restatement of the 2006 financial statements is presented as an adjustment in the fourth quarter of 2006. Commercial production commenced in the second quarter of 2006, however, a loss was incurred as significant charges related to the early conversion of the majority of the Company's convertible debenture liability were incurred. The \$0.08 loss per share in the second quarter of 2006 includes a \$5.9 million debt settlement charge to retained earnings in relation to conversion of the convertible debentures. The loss in the fourth quarter of 2006 was restated to reflect a \$2.1 million increase to future income tax expense. The Company expects that the third quarter may continue to represent a seasonal low for gold production based on recent rainfall patterns which have the potential to impact operations. Higher

realized gold prices and gold sales in 2008 are expected to result in increased earnings from operations and earnings.

FINANCIAL AND OTHER INSTRUMENTS

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

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The Company's cash and cash equivalents may be invested in short-term liquid deposits or investments which provide a revised rate of interest upon maturity. At December 31, 2007 all reported cash and cash equivalents were held in bank deposit accounts.

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

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

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

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

INVESTMENT IN MINERAL PROPERTY, PLANT AND EQUIPMENT

A breakdown of the cash invested in mineral property, plant and equipment for the year ended December 31, 2007 is presented below:

	2007 (\$000)
Mineral property and mine development	3,489
Crusher and conveyor	2,856
Leach pad expansion	3,583
Other mine infrastructure	3,685
Escondida	687
Mining equipment	542
Office and computer equipment	92
Cash invested in mineral property, plant and equipment	14,934

Capital spending in 2007 was focused primarily on the new crusher, leach pad expansion, the Mulatos relocation efforts and an additional storm water pond, treatment pond and improvements to mine infrastructure.

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The Company commenced the planned relocation of the town of Mulatos in the third quarter of 2007. Relocation contracts have been signed with more than half of the families resident in Mulatos. Property owners and possessors are being offered a comprehensive package of benefits including compensation for their property and/or relocation benefits. In certain cases, relocation benefits include deferred monthly payments. In 2007, the Company capitalized payments for property acquisition, relocation benefits and related costs totaling \$2,629,000. The Company has also recognized a liability of \$1,453,000 representing the discounted value of expected future payments for relocation benefits to property owners and possessors that had signed contracts with the Company as at December 31, 2007. The discounted value of the liability was capitalized to mineral property, plant and equipment.

The new crusher was commissioned in July 2007 at a total cost of approximately \$2.0 million. The new crusher has improved the Company's ability to crush to the optimal discharge size which is expected to improve gold recoveries, and to increase crusher throughput capacity. The Company also invested in excess of \$0.8 million in 2007 on its planned stacking and conveying system, which will eliminate truck loading of the leach pad. It is anticipated that this project will reduce leach pad costs, and increase mobile equipment availability as these trucks can be used elsewhere within the Mine. Leach pad expansion activities cost \$3.6 million in 2007. Capital investments in the leach pad expansion were significantly above budget due to higher equipment rental costs incurred during construction delays

caused by high rainfall and higher than anticipated leach pad plastic costs.

The Company also invested in excess of \$3.7 million on general mine site infrastructure in 2007. These expenditures were incurred to improve the Company's existing laboratory facilities, truck shop, warehouse, fuel station and process plant. The Company also invested approximately \$0.7 million in relation to the Escondida mill trade-off and feasibility studies.

Capital expenditures in 2008 are expected to be below 2007 levels. However, mine capital totaling approximately \$10 million has been budgeted in 2008 for completion of the stacking and conveying system, laboratory, truck shop, warehouse, fuel station and process plant and the construction of an acid treatment pond.

EXPLORATION AND MINE DEVELOPMENT ACTIVITIES

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

The Company invested \$3.0 million in exploration activities in 2007. The majority of exploration spending in 2007 related to the Gap area, where the Company invested \$0.9 million primarily in underground drilling expenditures. Additional drilling costs in 2007 included approximately \$0.5 million at Puerto del Aire and \$0.3 million at La Yaqui. Other significant exploration spending during 2007 included costs associated with resource estimation at El Victor, property taxes and camp and exploration staff salary costs. A summary of the Company's exploration progress in 2007 by project is described below.

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Gap

Exploration drilling in 2007 resulted in the extension of mineralization 500 meters from El Victor into the Gap area. In addition, drilling at the Gap resulted in the discovery of high-grade ore intercepts, some in excess of 30 g/t Au, increasing the likelihood of outlining an economic deposit at the Gap.

The Gap area has similar geologic characteristics to the high-grade Escondida Hanging Wall Zone and is a large, blind area of concealed silica alteration that hosts both localized high-grade and thick lower-grade gold intercepts. Surface drilling intercepts have delineated a mineralized area approximately 500 meters long by 150 meters wide, and up to 110 meters thick. Mineralization at the Gap area is continuous with El Victor, with 1,250 meters of strike length identified to date of mineralized intercepts from El Victor through to the Gap. An additional 100 meters of strike length remains to be explored until the Escondida deposit is encountered.

Surface drilling completed to date has consisted of 38 reverse circulation holes on roughly 50-meter centers (8,540 meters), stepping out to the west from previous El Victor/Gap intercepts. Drilling has resulted in the identification of several additional high-grade gold intercepts, including 4.58 meters of 24.73 g/t Au, 7.62 meters of 29.92 g/t Au and 3.04 meters of 24.86 g/t Au. These drill results are in addition to previously reported results including 33.5 meters of 4.09 g/t Au and 25.9 meters of 3.85 g/t Au. Underground core drilling and development is required and planned for 2008 to further assess the zone.

El Victor

A total of 137 surface and underground holes representing 12,800 meters were drilled at El Victor in 2006. In the fourth quarter of 2007, the Company reported a measured and indicated resource of 0.5 million ounces at El Victor.

Puerto del Aire

In 2007, the Company completed a resource definition drilling program at Puerto del Aire, which adjoins the northeast portion of the Estrella Pit. A total of 35 surface reverse-circulation holes (7,713 meters) were drilled. Drill hole intercepts defined a concealed mineralized zone parallel to the Escondida-El Victor trend that is up to 150 meters wide and over 300 meters in strike length. Recent drilling in the first quarter of 2008 has extended the zone an additional 225 meters to the northeast, where it remains open. Ore-grade intercepts extend a minimum of 200 meters beyond the current project pit margin, indicating the potential for a pit lay-back. Local high-grade oxide intercepts have been encountered, with the best result to date being 28.42 meters of 5.7 g/t Au. Additional drilling results include 19.82 meters of 5.10 g/t Au, 39.66 meters of 1.36 g/t Au, 27.44 meters of 2.30 g/t Au, 47.25 meters of 1.31 g/t Au and 25.91 meters of 2.34 g/t Au. Resources at Puerto del Aire are expected to be reported in 2008.

La Yaqui

During 2007, the Company successfully negotiated three new surface access agreements, permitting exploration into three high-priority targets for the first time since 1997. Drilling at La Yaqui in the fourth quarter of 2007 produced immediate success outlining an oxide gold zone exposed at surface with numerous

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ore-grade intercepts including 44.2 meters of 2.73 g/t Au and 30.0 meters of 3.33 g/t Au. This newly discovered near-surface oxide gold zone is located approximately 9.5 kilometers southwest of the Estrella Pit. Phase 2 drilling at La Yaqui is currently underway.

2008 Plans

With the completion of the new surface access agreements in 2007, exploration activities in 2008 will be focused on high-priority district targets. Additional in-fill and step-out drilling is planned at La Yaqui, in addition to Phase 1 drilling at Cerro Pelon, El Halcon and El Carricito.

The Company will remain focused in 2008 on resource growth. Additional underground drilling is planned to convert the exploration success at Gap into a resource. In addition, supplementary drilling at Puerto del Aire is intended to increase reported near-mine resources. The Company's exploration budget for 2008 is \$7.0 million however this is subject to change based on exploration results.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, the Company had \$7.8 million in cash and cash equivalents compared to \$4.9 million at December 31, 2006. In 2007, cash flows from operating activities of \$20.9 million were primarily reinvested in mineral property, plant and equipment and used to repay the Company's bank loan and capital lease obligations. Sources of cash in 2007 included the net collection of \$3.3 million of Mexican value-added tax and a \$2.1 million increase in the Company's accounts payable and accrued liability balance. Offsetting these amounts were cash investments of \$5.1 million in parts and supplies and

leach pad gold inventory, and \$0.2 million in prepaid expenses. The investment for leach pad gold inventory reflects all costs required to load gold-bearing ore onto the leach pad for processing into a gold/silver dore product. The Company's working capital position increased in 2007 from a working capital surplus at December 31, 2006 of \$32.9 million to \$39.2 million at December 31, 2007.

The Company has an unsecured \$15 million revolving line of credit with a bank, available for general corporate purposes. On August 25, 2007 the bank increased the line of credit from \$10 million to \$15 million and reduced the rate of interest from LIBOR + 2.75% to LIBOR + 2.25%. During 2007, the Company had drawn up to \$7 million on this facility. However, in the fourth quarter of 2007, strong cash flows from operations enabled the Company to repay the entire outstanding amount of this bank loan. Accounts payable and accrued liabilities increased from \$5.8 million at December 31, 2006 to \$7.9 million at December 31, 2007.

In February 2005, the Company issued a 5.5% CDN\$50 million convertible unsecured debenture maturing on February 15, 2010. In June 2006, approximately 97% of the outstanding debentures were converted. The early conversion of substantially all of the convertible debentures benefited the Company by significantly reducing its long-term debt and eliminating the accretion, interest and foreign exchange costs associated with the converted debentures. At December 31, 2007, convertible debentures representing CDN\$1,471,000 in face value were outstanding.

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The Company's financial strength and liquidity improved significantly throughout 2007. The Company expects a higher realized gold price and increased gold sales in 2008 to result in substantially increased cash flows generated from operations and corresponding higher cash balances.

The Company has commissioned a feasibility study addressing mining alternatives for the Escondida deposit. If it is determined to be economic, the Company expects to construct a mill and mine the deposit. It is not certain what the construction cost will be at this time, however, the Company believes that it will be able to finance the project with some combination of debt and cash flows from operations, based on current operating plans and the current gold price.

CHANGES IN ACCOUNTING POLICY AND PRESENTATION

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

Adoption of Section 3855, Financial Instruments – Recognition and Measurement, resulted in the Company classifying its investment in the common shares of Castle Gold Corporation ("Castle", formerly Morgain Minerals Inc.) as available-for-sale on its interim consolidated balance sheets. The common shares of Castle were received as consideration on disposal of the Company's La Fortuna property and certain inactive subsidiaries. At the transaction date, the net book value of the La Fortuna property and the

inactive subsidiaries approximated the value of the consideration received of \$1.1 million and no gain or loss was recognized on the transaction.

Available-for-sale financial assets are carried at fair value with changes in fair value recorded in other comprehensive income. In determining fair value, the Company has considered the significance of its Castle common share holdings and the likelihood that it could readily liquidate its shareholdings at the quoted market price. The Company has determined that the fair value of its holdings is determinable by applying a liquidity discount to the quoted market price of the Castle common shares.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements that will be adopted by the Company in 2008 include CICA Section 1535, Capital Disclosures, Sections 3862 and 3863, Financial Instruments – Disclosure and Presentation and Section 3031, Inventories. The Company does not expect the adoption of Section 1535, 3863 or 3863 to have a significant effect on the Company's financial statements. The Company is currently in the process of evaluating the impact of the new Section 3031 on its financial statements.

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INTERNAL CONTROL OVER FINANCIAL REPORTING

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

During the assessment of the Company's 2007 balance of future tax assets and liabilities, the Company became aware that its future tax assets had been materially affected by a recent tax audit that had the effect of reducing the Company's future tax assets, which had been overstated. The Company has concluded that there were insufficient monitoring controls over the tax return preparation and review process in Mexico and its procedures to compile accurate future tax asset and liability balances. The Company has implemented additional procedures in the course of preparing its year end 2007 financial statements, and will implement further procedures during its review of tax balances for the first quarter of 2008. The Company also intends to create new internal control policies and procedures which address the review and approval of tax return submissions prior to their filing.

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes to the Company's internal control over financial reporting that occurred during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. Changes to internal control over financial reporting are expected to be implemented in the first quarter of 2008 in accordance with the discussion in the preceding paragraph.

DISCLOSURE CONTROLS

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company may enter into gold contracts which may, in certain circumstances, be classified as off-balance sheet arrangements. Due to the nature of the contracts entered into and in accordance with the Company's accounting policy, the marked-to-market value of these contracts is recorded on the balance sheet. At December 31, 2007, no contracts were outstanding.

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COMMITMENTS TABLE

The following table summarizes the Company's contractual obligations at December 31, 2007:

Payments due by period (\$000) Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Convertible debenture	1,692	82	1,610		
Operating lease	840	120	240	240	240
Capital lease obligations	10,225	2,937	5,779	1,509	-
Employee future benefits ⁽¹⁾	1,110	-	-	-	1,110
Asset retirement obligations	5,374	-	-	-	5,374
Property acquisition obligations	1,680	581	586	513	-
	20,921	3,720	8,215	2,262	6,724

(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 Labor Law. In certain circumstances, the Company must also pay other contractual termination or severance benefits, the timing and amount of which are contingent on factors outside of the Company's control.

Contractual obligations also exist with respect to royalties, however, gold production subject to royalty cannot be ascertained with certainty and the royalty rate varies with the gold price. Based on the current gold price and rates of production, royalty expense in 2008 is expected to exceed the royalty expense of \$3.8 million recorded in 2007.

The Company has signed relocation contracts with certain property owners and possessors in the town of Mulatos. The amount and timing of expected future relocation benefit and property acquisition payments to the residents of Mulatos who had signed contracts with the Company as at December 31, 2007 are presented in the table above. Although future relocation, property acquisition and legal costs may be material, the Company cannot currently determine the expected timing, outcome of negotiations or costs associated with the relocation of the remaining property owners and possessors and potential land acquisitions.

OUTSTANDING SHARE DATA

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

	March 10, 2008
Common shares	
- Common shares outstanding	94,838,230
Stock options	
- Average exercise price CDN\$5.64; Approximately 70% vested	6,232,500
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

Management's Discussion & Analysis

The Company exceeded its forecast gold production of 30,000 ounces in the fourth quarter of 2007 and expects improvements throughout 2008.

Outlook

Looking forward to 2008, the Company anticipates benefits arising from the initiatives undertaken in 2007. Increasing gold production, gold sales, revenues, cash flows and profitability are all expected to characterize the Company's 2008 year. The Company exceeded its forecast gold production of 30,000 ounces in the fourth quarter of 2007 and expects improvements throughout 2008.

Gold production in 2008 is ultimately dependent on the Company's ability to increase its recoveries. Production shortfalls associated with crusher throughput or crusher discharge size in 2007 have been addressed. The Company is currently averaging 14,000 tonnes of crushed ore per day at the optimal discharge size. Uncertainty regarding the metallurgy of the Estrella deposit has been addressed, as both in-house and independent laboratory testing have confirmed that recoveries of 60-70% are achievable. The Company's focus in 2008 is to improve its ability to forecast future production by addressing leach pad dynamics with the objective of realizing gold recoveries consistent with the results of laboratory testing. To do this, the Company has installed and expects to be operating the stacking and

conveying system by the end of the first quarter of 2008 or shortly thereafter. This will remove the risk of compaction from truck-loading the leach pad and is expected to improve recoveries. In addition to this, the Company expects that it will begin cement agglomeration and the installation of inter-lift liners, both of which could contribute to additional improvements in gold recovery. The Company is confident that improvements in gold production in the fourth quarter of 2007 will continue into 2008. The Company forecasts gold production and sales in the first quarter of in excess of 30,000 ounces at a cash operating cost (exclusive of royalties which increase with gold prices), at or below \$400 per ounce. Based on current gold prices, this level of production is expected to result in record quarterly gold sales, cash flows from operations and earnings.

The results of the Escondida mill feasibility study are expected to be received in the second quarter, followed by a production decision in the third quarter of 2008.

The 2008 exploration budget of \$7 million will be focused on high-priority targets including La Yaqui, Cerro Pelon and the Gap.

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CRITICAL ACCOUNTING ESTIMATES

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

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

The Company is required to determine the expected value of the estimated costs of asset retirement obligations and to recognize this value as a liability when reasonably determinable. This valuation is added to the cost of the relevant mineral property on the consolidated balance sheets, and amortized as an expense in the consolidated statements of operations when the mineral property is in production. Asset retirement costs include future removal and site restoration. Key assumptions in determining the amount of 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 2008 and is awaiting receipt of an independent third party prepared mine closure and reclamation plan. The majority of the expenditures associated with reclamation and mine closure will be incurred at the end of the mine life, expected to be in seven years based on expected proven and probable reserves and the current rate of production.

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

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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.

RISK FACTORS AND UNCERTAINTIES

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

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry which may have a material

impact on, or constitute risk factors in respect to, the Company's future financial performance.

INDUSTRY

The Company is engaged in exploration, mine development and the mining and production of precious metals, primarily gold, and is exposed to a number of risks and uncertainties that are common to other companies in the same business. Unusual or unexpected formations, formation pressures, fires, power outages, labor disruptions, flooding, cave-ins, landslides and the inability to obtain suitable adequate machinery, equipment or labor are risks involved in the operation of mines and the conduct of exploration programs. The Company has relied on and may continue to rely upon consultants and others for mine operating and exploration expertise. Few properties that are explored are ultimately developed into producing mines. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineral deposit, the Company may not be able to raise sufficient funds for development. The economics of developing mineral properties 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.

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Where expenditures on a property have not led to the discovery of mineral reserves, spent costs will not usually be recoverable.

COMMODITY PRICE

The value of the Company's mineral resources and future operating profit and loss is affected by fluctuations in gold prices, over which the Company has no control. A reduction in the price of gold may prevent the Company's properties from being economically mined or result in the write-off of assets whose value is impaired as a result of low gold prices. The price of gold may also have a significant influence on the market price of the Company's common shares. The price of gold is affected by numerous factors beyond the Company's control, such as the level of inflation, fluctuation of the United States dollar and foreign currencies, global and regional demand, sale of gold by central banks and the political and economic conditions of major gold producing countries throughout the world. The price of gold has increased significantly in the past several years. The current gold price is significantly above impairment levels. The Company has elected not to engage in significant forward selling, as a number of gold mining companies have been adversely affected by maintaining a substantial forward sales book in the face of a rising gold market. At the current rate of quarterly production, revenue will change by approximately \$30,000 with each \$1 change in the price of gold.

CURRENCY

The Company is subject to currency risks. The Company's functional currency is the United States

dollar, which is subject to recent fluctuations against other currencies. The Company's primary operations are located in Mexico and many of its expenditures and obligations are denominated in Mexican pesos. 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 Company's results of operations are subject to foreign currency fluctuation risks and such fluctuations may adversely affect the financial position and operating results of the Company. The Company has not undertaken to mitigate transactional volatility in either the Mexican peso or the Canadian dollar at this time. A 1% change in the relative value of the Canadian dollar would impact corporate and administrative costs by approximately \$35,000 annually; a 1% change in the relative value of the Mexican peso would impact operating costs by approximately \$250,000 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.

Management's Discussion & Analysis

COMPETITIVE

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

COUNTRY

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

The Company 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 on 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.

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

Management's Discussion & Analysis

ENVIRONMENTAL

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Specifically, the Company activities related to its Salamandra Concessions are subject to regulation by SEMARNAP, the environmental protection agency of Mexico. Regulations require that an environmental impact statement, known in Mexico as a *Manifiesto Impacto Ambiental*, be prepared by a third-party contractor for submittal to SEMARNAP. Studies required to support the *Manifiesto 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 *Manifiesto 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 Agua* ("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 activities or maintaining its properties. Operations may also be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety.

A number of other approvals, licenses and permits are required for various aspects of mine development. While the Company has used its best efforts to ensure title to all its properties and secured access to surface rights, these titles or rights may be disputed, which could result in costly litigation or disruption of operations. The Company is uncertain if all necessary permits will be maintained on acceptable terms or in a timely manner. Future changes in applicable laws

Management's Discussion & Analysis

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 the expected 2008 rate of production and budgeted cash operating costs, a 1% change in the expected rate of recovery of gold would result in a \$7 per ounce change in cash operating costs, and an approximate \$1,500,000 change in income and cash flow annually, before royalties and income taxes. A 1% change in cash cost per tonne of ore would result in a \$4 per ounce change in cash cost, and approximately \$500,000 change in income and cash flow annually, before royalties and tax charges.

DEPENDENCE ON MANAGEMENT

The Company is dependent on key personnel and the absence of any of these individuals could result in a significantly negative effect on the Company. The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term. As the Company's operations expand, additional general management resources will be required, especially since the Company encounters risks that are inherent in doing business in several countries. The Company

Management's Discussion & Analysis

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.

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 fact and may be "forward-looking statements." Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements.

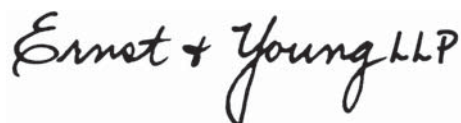
To The Shareholders of Alamos Gold Inc.

We have audited the consolidated balance sheets of Alamos Gold Inc. [the “Company”] as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive income, deficit 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The signature of Ernst & Young LLP is written in a black, cursive script. The letters are fluid and connected, with a prominent 'E' and 'Y'. The 'LLP' is written in a slightly more formal, but still cursive, style.

Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 6, 2008

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 maintains 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 reliability and the 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 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 Company's systems of internal control, 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 who are thus considered to be free from any relationship that could interfere with their 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 6, 2008



John A. McCluskey
President and Chief Executive Officer



Jon Morda, CA
Chief Financial Officer

Consolidated Financial Statements

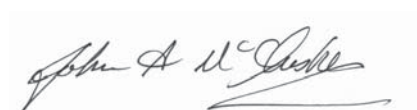
Consolidated Balance Sheets

(stated in thousands of United States dollars)

	Note Ref.	December 31, 2007	December 31, 2006
			(Restated – Note 18(a))
ASSETS			
Current Assets			
Cash and cash equivalents		\$7,757	\$4,878
Restricted cash		–	78
Amounts receivable	4	3,040	6,368
Advances and prepaid expenses		1,520	1,314
Available-for-sale securities	5	1,195	1,174
Inventory	6	36,222	29,549
		49,734	43,361
Mineral property, plant and equipment	7	126,095	117,475
		\$175,829	\$160,836
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		\$7,907	\$5,761
Bank loan	10	–	3,000
Current portion of capital lease obligations	9	2,072	1,700
Current portion of property acquisition obligations	12	562	–
		10,541	10,461
Capital lease obligations	9	6,503	6,277
Convertible debenture	10	1,297	1,092
Future income taxes	18	11,445	6,950
Employee future benefits	8	555	350
Asset retirement obligations	11	3,460	2,640
Property acquisition obligations	12	891	–
Total Liabilities		\$34,692	\$27,770
SHAREHOLDERS' EQUITY			
Share capital	13	\$161,042	158,971
Convertible debenture	10	293	297
Contributed surplus	13	6,810	3,740
Deficit		(27,008)	(29,942)
		141,137	133,066
		\$175,829	\$160,836

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 Comprehensive Income

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

	2007	2006
		(Restated – Note 18(a))
OPERATING REVENUES		
Gold sales	\$74,028	\$54,655
OPERATING EXPENSES		
Mining and processing	42,195	26,856
Royalties	3,776	2,175
Amortization	11,000	8,091
Exploration	2,320	4,319
Corporate and administrative	3,516	3,604
Stock-based compensation	3,425	1,820
Accretion expense	200	157
Employee future benefits	205	350
	66,637	47,372
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING	7,391	7,283
Interest income	202	346
Interest expense	(1,326)	(2,159)
Financing charges	–	(436)
Accretion of convertible debenture discount	(69)	(960)
Foreign exchange loss	(48)	(922)
Other gain (loss)	224	(321)
Earnings before income taxes	6,374	2,831
Income taxes		
– Current	(545)	(125)
– Future	(2,895)	(3,055)
Earnings (loss) and comprehensive income (loss)	\$2,934	(\$349)
Earnings (loss) per share		
(Note 16)		
– Basic and diluted	\$0.03	(\$0.07)
Weighted average number of common shares outstanding		
(Note 16)		
– Basic	94,065,000	87,607,000
– Diluted	96,427,000	87,607,000

See notes to consolidated financial statements

Consolidated Financial Statements

Consolidated Statements Of Deficit

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

	2007	2006
		(Restated – Note 18(a))
Deficit – beginning of year	(\$29,942)	(\$23,603)
Earnings (loss)	2,934	(349)
Conversion of convertible debentures	–	(5,990)
Deficit – end of year	(\$27,008)	(\$29,942)

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

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

	2007	2006
		(Restated – Note 18(a))
Cash provided by (used for):		
Operating Activities		
Earnings (loss)	\$2,934	(\$349)
Adjustments for items not involving cash:		
Amortization	11,000	8,091
Accretion of asset retirement obligations	269	1,117
Employee future benefits	205	350
Unrealized foreign exchange loss	51	1,530
Settlement of convertible debenture	–	1,548
Future income taxes	2,895	3,055
Realized gain on sale of securities	(113)	–
Stock-based compensation	3,425	1,820
Changes in non-cash working capital:		
Fair value of forward contracts	–	966
Amounts receivable	3,328	(2,506)
Inventory	(5,065)	(16,014)
Prepaid expenses	(206)	(710)
Accounts payable and accrued liabilities	2,136	438
	20,859	(664)
Investing Activities		
Proceeds from sale of securities	239	–
Mineral property, plant and equipment	(14,934)	(17,754)
	(14,695)	(17,754)
Financing Activities		
Common shares issued	1,695	18,861
Bank loan	(3,000)	–
Capital lease repayments	(2,024)	(1,225)
Restricted cash	44	1,141
	(3,285)	18,777
Net increase in cash and cash equivalents	2,879	359
Cash and cash equivalents – beginning of year	4,878	4,519
Cash and cash equivalents – end of year	\$7,757	\$4,878
Supplemental information:		
Interest paid	\$1,078	\$2,090

See notes to consolidated financial statements



Notes to Consolidated Financial Statements

(stated in 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. The United States dollar is both the functional and reporting currency of the Company. 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 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, property acquisition 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 recognized when refined metal is delivered to a purchaser pursuant to a purchase agreement that fixes the quantity and price of the metal for each delivery. Costs incurred or premium income related to forward sales or option contracts are recognized in revenue when the contract is settled. Changes in the fair value of outstanding forward sales or option contracts are recognized in earnings.

Inventory

Inventory which includes gold-in-process, dore and 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

Notes to Consolidated Financial Statements

(stated in United States dollars)

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.

Mineral property, plant and equipment

a) Mineral property acquisition and mine development costs

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

Property acquisition and mine development costs are recorded at cost and amortized by the unit-of-production method based on estimated recoverable reserves. Pre-production expenditures are capitalized until the commencement of production. Mine development costs incurred to expand operating capacity, develop new orebodies or develop mine areas in advance of current production are deferred and then amortized on a unit-of-production basis. Mine development costs related to current period 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.

Notes to Consolidated Financial Statements

(stated in United States dollars)

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.

c) Impairment

The carrying values of mineral property, plant and equipment are reviewed periodically, when impairment factors exist, for possible impairment, based on the future undiscounted net cash flows of the related mine or development property. If it is determined that the estimated net recoverable amount is less than the carrying value, then a write-down to the estimated fair value amount is made with a charge to operations. Estimated future cash flows of a mine or development property include estimates of recoverable ounces of gold based on proven and probable reserves. To the extent that economic value exists beyond the proven and probable reserves of a mine or development property, this value is included as part of the estimated future cash flows. Estimated future cash flows also involve estimates regarding gold prices, production levels, capital, reclamation costs and income taxes. Cash flows are subject to risks and uncertainties and

changes in the estimates of the cash flows could affect the recoverability of long-lived assets.

Foreign currency translation

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 earnings.

Cash and cash equivalents

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

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 is presented at amortized cost as calculated using the effective interest rate method. The Company is subject to interest rate risk on its capital lease obligations as interest on these liabilities is calculated with reference to market interest rates.

Notes to Consolidated Financial Statements

(stated in United States dollars)

The Company may enter into foreign exchange forward contracts to manage the Company's exposure to fluctuations in the Canadian and United States dollar and Mexican peso foreign exchange rates. The Company may also enter into forward gold sale transactions. These forward contracts are marked-to-market and recognized in the financial statements at their fair value.

Income taxes

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

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 laws and regulations are continually changing and are generally becoming more restrictive. The Company has made, and will continue to make, expenditures to comply with such laws and regulations. Site closure and reclamation costs expected to be incurred in the future are estimated by the Company's management based on the information available to them. A third party consultant was not engaged to provide an independent analysis of the Company's expected future closure costs. Actual site closure and reclamation costs could be materially different from the current estimates. Any change in cost estimates should additional information become available would be accounted for on a prospective basis. 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. Refer to Note 11.

Employee future benefits

The Company is subject to Mexican statutory laws and regulations governing employee termination benefits. Employee future benefits include statutorily mandated accrued benefits payable to employees in the event of termination in certain circumstances.

Notes to Consolidated Financial Statements

(stated in United States dollars)

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. Refer to Note 8.

Earnings (loss) per share

Earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year. The diluted earnings (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.

NOTE 3. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

a) Financial instrument standards

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

The Financial Instrument Standards require that adjustments to the carrying value of financial assets and liabilities be recorded within retained earnings or, in the case of available-for-sale assets, accumulated other comprehensive income on transition.

The Company has certain investments in the common shares of publicly traded corporations, which are classified as available-for-sale. Although these investments represent common shares that are traded on a recognized stock exchange, the Company may not be able to sell its investments at the quoted market price. Accordingly, the value of these investments is determined with reference to the quoted market price and an appropriate discount. On transition, the value of these investments was consistent with historical cost. As a result, adoption of the new standard did not have a material impact on the Company's financial statements on or before December 31, 2006, on transition at January 1, 2007 or in the year ended December 31, 2007.

The principal changes resulting from the adoption of the Financial Instrument Standards are as follows:

Financial assets and financial liabilities

Under the new standards, financial assets and liabilities are initially recognized at fair value and are subsequently measured based on their classification as held-to-maturity, loans and receivables, available-for-sale or held-for-trading, as described below. The classification is not changed subsequent to initial recognition.

Notes to Consolidated Financial Statements

(stated in United States dollars)

Held-to-maturity and loans and receivables

Financial instruments that have a fixed maturity date, where the Company intends and has the ability to hold to maturity, are classified as held-to-maturity and measured at amortized cost using the effective interest rate method. Loans and receivables are measured at amortized cost using the effective interest method.

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value (where determinable based on market prices of actively traded securities) with changes in fair value recorded in other comprehensive income. Available-for-sale securities are written down to fair value through earnings whenever it is necessary to reflect an other-than-temporary impairment. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to its fair value.

Held-for-trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with the change in the fair value recognized in income.

Derivatives and hedge accounting

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

Comprehensive income

Comprehensive income is composed of the Company's earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income which is presented (if applicable) as a new category in shareholders' equity.

b) Accounting changes

Effective January 1, 2007, the Company adopted the revised CICA Handbook Section 1506, Accounting Changes, which requires that a voluntary change in accounting policy can be made only if the changes result in more reliable and relevant information and are accompanied with disclosures of prior period amounts and justification for the changes. The section also requires that the nature and amount of material changes in estimates be disclosed. The Company has not made any voluntary change in accounting policies or significant changes in estimates that are not otherwise disclosed since the adoption of the revised section.

c) Recent accounting pronouncements

In February 2007, the CICA issued Handbook Section 1535, Capital Disclosures which is effective for fiscal years beginning on or after October 1, 2007. This standard requires disclosure of information that

Notes to Consolidated Financial Statements

(stated in United States dollars)

enables users of the Company's financial statements to evaluate the entity's objectives, policies and processes for managing capital. The adoption of this standard is not expected to have a significant effect on the Company's financial statements.

In February 2007, the CICA issued Handbook Section 3862, Financial Instruments – Disclosure ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863"), which are effective for fiscal years beginning on or after October 1, 2007. The objective of Section 3862 is to provide financial statement disclosure to enable financial statement users to evaluate the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and at the balance sheet date, and how the Company is managing those risks. The purpose of Section 3863 is to enhance the financial statement user's understanding of the significance of financial instruments to the Company's financial position, performance and cash flows. The adoption of Section 3862 and 3863 are not expected to have a significant effect on the Company's financial statements.

In June 2007, the CICA issued Handbook Section 3031, Inventories which becomes effective on January 1, 2008. This section requires that inventory be recorded at the lower of cost or net realizable value. This section also clarifies that the allocation of fixed production overhead requires the consistent use of either first-in, first-out or the weighted average method to measure inventory, and requires that any previous

write-downs be reversed when the value of the inventory increases. The amount of the reversal is limited to the amount of the original write-down. The Company is in the process of assessing the impact of this new section on its financial statements.

NOTE 4. AMOUNTS RECEIVABLE

	December 31, 2007	December 31, 2006
	(\$000)	(\$000)
Accounts receivable	107	154
Mexican value-added tax	2,933	6,214
	\$3,040	\$6,368

NOTE 5. AVAILABLE-FOR-SALE SECURITIES

Effective June 15, 2006, the Company sold its La Fortuna property to Castle Gold Corporation ("Castle", formerly Morgain Minerals Inc.) for consideration of 2.5 million common shares of Castle 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 initially valued at \$1,100,000 and was classified as available-for-sale securities on the Company's balance sheet. At December 31, 2007 the Company held 2,395,500 shares of Castle with a fair value (\$1,195,000) determined with reference to published price quotations.

Notes to Consolidated Financial Statements

(stated in United States dollars)

NOTE 6. INVENTORY

	December 31, 2007	December 31, 2006
	(\$000)	(\$000)
Precious metals dore and refined precious metals	4,760	4,744
In-process precious metals	22,693	18,041
Parts and supplies	8,769	6,764
	\$36,222	\$29,549

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. Certain concessions within the acquired properties are subject to a sliding scale net smelter royalty on the first 2,000,000 ounces of gold production. The royalty rate is 5% when the market price of gold exceeds \$400 per ounce.

Included within the Salamandra group of concessions is the Mulatos mine which began operations in 2005.

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
	(\$000)	(\$000)	(\$000)
Mineral property and mine development	59,150	(8,713)	50,437
Mining plant and equipment	79,244	(15,158)	64,086
Assets under capital lease	13,589	(2,253)	11,336
Office and computer equipment	483	(247)	236
	\$152,466	(\$26,371)	\$126,095

	December 31, 2006 (Restated)		
	Cost	Accumulated Amortization	Net Book Value
	(\$000)	(\$000)	(\$000)
Mineral property and mine development	50,859	(4,491)	46,368
Mining plant and equipment	69,019	(8,058)	60,961
Assets under capital lease	10,966	(1,066)	9,900
Office and computer equipment	391	(145)	246
	\$131,235	(\$13,760)	\$117,475

NOTE 8. EMPLOYEE FUTURE BENEFITS

The Company accrues employee future benefits for all contract workers paid through its subsidiary employment services company. These benefits consist of a one-time payment equivalent to twelve 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 fifteen or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. Under Mexican Labor 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 twenty days wages for each year of service payable upon involuntary termination without just cause.

Notes to Consolidated Financial Statements

(stated in United States dollars)

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, minimum wage increases and expected salary levels are required and are subject to review and change.

The assumptions used in the determination of employee future benefits are as follows as at:

	December 31, 2007	December 31, 2006
Inflation adjusted interest rate	8.26%	8.73%
Salary increase rate	4.64%	5.09%
Minimum wage increase rate	3.60%	4.05%

NOTE 9. CAPITAL LEASE OBLIGATIONS

The Company enters into leasing arrangements with financing companies for mining equipment. As at December 31, 2007, the Company had entered into twelve leases (ten leases at December 31, 2006). The maximum term of each lease is five years, with payments totaling \$245,000 per month over the terms of the leases. The obligations under capital lease bear interest at one-month 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, 2007 was \$818,000 (year ended December 31, 2006 – \$654,000). The Company has the right to repay the outstanding balance of the leases at any time.

As at December 31, 2007, the future minimum lease payments under capital lease agreements were:

Year	Capital lease payments
	(\$000)
2008	2,937
2009	2,937
2010	2,842
2011	1,065
2012	444
	10,225
Less: Imputed interest	(1,650)
	8,575
Less: Current portion	(2,072)
Non-current portion	6,503

NOTE 10. DEBT

Convertible debenture

Effective February 2, 2005, the Company issued a CDN\$50 million aggregate principal amount 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 is convertible into common shares at a rate of 18.86792 common shares for each CDN\$100 principal amount of debenture on maturity.

In the second quarter of 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. Debentures representing CDN\$48,444,000 or approximately 97% of the outstanding balance were converted into common shares at incentive conversion

Notes to Consolidated Financial Statements

(stated in United States dollars)

ratios ranging from 20.3824 to 20.5907 common shares for each CDN\$100 principal of debenture resulting in the issuance of 9,966,982 common shares. In addition, accrued interest related to the converted debentures was settled through the issuance of common shares at 18.86792 common shares per CDN\$100 of accrued interest, resulting in the issuance of 174,520 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 classified as other loss and charged to earnings, and \$5,990,000 was charged to retained earnings in the second quarter of 2006.

Convertible debentures representing CDN\$25,000 were converted during 2007. The face value of the outstanding convertible debentures at December 31, 2007 was CDN\$1,471,000.

Bank loan

On July 21, 2005, the Company obtained a bank line of credit consisting of a \$10 million unsecured revolving facility and a non-margin hedging line. The initial term was for one-year, and was extended at the discretion of the lender to July 21, 2008. On August 25, 2007, the bank agreed to increase the amount available to the Company to \$15 million. Interest is payable at a rate of 2.25% above applicable LIBOR on the drawn portion of the facility, and 0.75% on the undrawn portion. The outstanding balance of the bank loan at December 31, 2007 was \$nil.

NOTE 11. 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.

A continuity of asset retirement obligations is as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
	(\$000)	(\$000)
Obligations at start of year	2,640	2,100
Revisions in estimated cash flows and changes in assumptions	604	358
Liabilities incurred	33	25
Accretion of discounted cash flows	183	157
Obligations at end of year	\$3,460	\$2,640

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

	December 31, 2007	December 31, 2006
Estimated cost (\$000)	5,374	4,440
End of mine life	2014	2014
Discount rate	6.48% – 6.70%	6.70%

Notes to Consolidated Financial Statements

(stated in United States dollars)

NOTE 12. PROPERTY ACQUISITION OBLIGATIONS

The Company is in the process of acquiring property adjacent to its present and prospective mining operations, including property comprising the town of Mulatos. Property owners and possessors are being offered a comprehensive benefits package including compensation for their property and/or relocation benefits. In certain cases, relocation benefits include deferred monthly payments over periods varying from three to five years. Obligations are recognized when a legal contract is signed by both parties and are measured at the discounted value of expected future payments. The Company has applied a discount rate of 6.48% to expected future payments.

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, 2006	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
Exercise of stock options	801,000	1,695
Conversion of convertible debenture	4,716	21
Transfer of contributed surplus to share capital for exercised stock options	—	355
Outstanding at December 31, 2007	94,516,231	\$161,042

b) Stock options outstanding and exercisable as at December 31, 2007:

Range of exercise prices (\$CDN)	Outstanding			Exercisable	
	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	50,000	\$0.76	0.08	50,000	\$0.76
\$1.01 – \$2.00	305,000	\$1.13	0.56	305,000	\$1.13
\$2.01 – \$3.00	1,401,500	\$2.43	1.14	1,401,500	\$2.43
\$3.01 – \$4.00	1,080,000	\$3.70	2.34	1,080,000	\$3.70
\$6.01 – \$8.00	2,680,000	\$7.14	3.64	1,126,800	\$7.14
\$8.01 – \$9.00	1,038,000	\$8.89	2.95	810,080	\$8.89
	6,554,500	\$5.52	2.61	4,773,380	\$4.83

Notes to Consolidated Financial Statements

(stated in United States dollars)

c) Summary of stock option activity:

	Number	Weighted average exercise price (\$CDN)
Outstanding at January 1, 2006	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
Granted	2,472,000	7.22
Exercised	(801,000)	2.16
Forfeited	(302,000)	7.86
Outstanding at December 31, 2007	6,554,500	\$5.52

d) Summary of contributed surplus activity:

	Amount
	(\$000)
Balance at January 1, 2006	3,170
Stock-based compensation	1,820
Transfer of contributed surplus to share capital for exercised stock options	(1,250)
Balance at December 31, 2006	3,740
Stock-based compensation	3,425
Transfer of contributed surplus to share capital for exercised stock options	(355)
Balance at December 31, 2007	\$6,810

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.

In 2006, the Company granted incentive stock options to certain of its directors, officers and employees to purchase up to 1,235,000 common shares in the capital of the Company at exercise prices ranging from CDN\$8.86 to CDN\$8.90 per share.

On April 16, 2007, the Company granted 1,990,000 stock options at an exercise price of CDN\$7.29. The Company granted an additional 182,000 stock options at an exercise price of CDN\$6.81 on October 9, 2007 and 300,000 stock options at an exercise price of CDN\$7.00 on October 19, 2007.

Stock options granted to directors, officers and certain consultants are exercisable for a five-year period, and options granted to employees are generally exercisable for a three-year period. All incentive stock options granted vest 20% on the date of grant, and 20% at each six-month interval following the date of grant.

Notes to Consolidated Financial Statements

(stated in United States dollars)

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 years ended	December 31, 2007	December 31, 2006
Risk-free rate	4.00%	4.00%
Expected dividend yield	nil	nil
Expected stock price volatility	50%	50%
Expected option life, based on terms of the grants (months)	27–40	27–40
Per share fair value of options granted	\$2.45	\$2.94

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, 2007, 4,773,380 stock options were exercisable. The remaining 1,781,120 stock options vest over the following two years. Subsequent to December 31, 2007, 322,000 stock options were exercised at an average exercise price of CDN\$3.09.

NOTE 15. 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, 2007	December 31, 2006 (Restated)
	(\$000)	(\$000)
Assets, by geographic segment		
– Mexico	173,890	156,266
– Canada	1,939	4,570
	\$175,829	\$160,836

Years ended December 31	2007			2006 (Restated)		
	Mexico	Canada	Total	Mexico	Canada	Total
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Revenues	74,028	–	74,028	54,655	–	54,655
Earnings/(loss)	9,438	(6,504)	2,934	9,156	(9,505)	(349)

Notes to Consolidated Financial Statements

(stated in United States dollars)

NOTE 16. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share has been calculated as presented in the table below:

Years ended December 31	2007	2006 Restated
	(\$000)	(\$000)
Earnings/(loss)	2,934	(349)
Conversion of convertible debentures (Note 10)	–	(5,990)
Net earnings (loss) available to common shareholders	2,934	(6,339)
Weighted average number of common shares outstanding		
– Basic	94,065,000	87,607,000
– Diluted	96,427,000	87,607,000
Earnings (loss) per share		
– Basic and diluted	\$0.03	(\$0.07)

NOTE 17. COMMITMENTS AND CONTINGENCIES

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 daily average London PM Fix gold prices, not actual prices realized by the Company.

The Company commenced the planned relocation of the town of Mulatos in 2007. Relocation contracts have been signed with in excess of half of the families resident in Mulatos. Property owners and possessors are being offered a comprehensive benefits package including compensation for their property and/or relocation benefits. In certain cases, relocation

benefits include deferred monthly payments. In 2007, the Company capitalized approximately \$2,178,000 in property acquisition, relocation benefits, legal and related costs. The Company has also recognized a liability of \$1,453,000 representing the discounted value of expected future payments for relocation benefits to property owners and possessors that had signed contracts with the Company as at December 31, 2007. The discounted value of the liability was capitalized to mineral property, plant and equipment. Although future property acquisition, relocation benefits, legal and related costs may be material, the Company cannot currently determine the expected timing, outcome of negotiations or costs associated with the relocation of the remaining property owners and possessors and potential land acquisitions.

NOTE 18. INCOME TAXES

a) Restatement

During the year, the Company noted that the filing of a prior year tax return in Mexico had resulted in the overstatement of future tax assets and the understatement of future tax expense in the amount of approximately \$2 million. The prior year financial statements have been restated to reflect this correction.

The prior year financial statements have also been adjusted to recognize a future tax liability related to the 2003 acquisition of National Gold Corporation, the company which previously owned the Company's wholly-owned subsidiary, Minas de Oro Nacional, S.A. de C.V. and related mineral properties. No future tax liability had previously been recorded in respect of the portion of mineral properties acquired for which

Notes to Consolidated Financial Statements

(stated in United States dollars)

there was no tax basis. The value attributed to the underlying mineral properties and related expenditures on the allocation of the purchase price has been increased by approximately \$3.9 million to reflect future tax liabilities totaling approximately \$3.9 million. As a result, amortization expense and accumulated amortization for 2006 increased by \$270,000. These non-cash adjustments have no impact on the Company's net cash flows, cash balances or accumulated deficit as at December 31, 2005.

Amounts included within these financial statements and accompanying notes have been adjusted to reflect the above restatement. The impact of the restatement on the December 31, 2006 results is as follows:

	2006 Previously reported	Change	2006 Restated
	(\$000)		(\$000)
Balance sheet as at December 31			
Mineral property, plant and equipment	113,850	3,625	117,475
Future income tax liability	1,000	5,950	6,950
Deficit	27,617	2,325	29,942
Statement of operations for the year ended December 31, 2006			
Amortization	7,821	270	8,091
Future income tax expense	1,000	2,055	3,055
Earnings (loss)	1,976	(2,325)	(349)
Loss per share – Basic and diluted	(\$0.05)	(\$0.02)	(\$0.07)

b) Rate reconciliation

The reconciliation of the expected tax expense at a combined statutory rate of 36% and provision for income tax expense is:

December 31	2007	2006 Restated
	(\$000)	(\$000)
Earnings before income taxes	6,374	2,831
Expected tax expense at statutory income tax rate	2,295	1,020
(Decrease)/increase resulting from:		
Difference in foreign tax rates	(930)	(1,000)
Non-deductible accretion expense	25	300
Non-deductible stock-based compensation expense	1,230	700
Non-taxable (gain)/deductible loss	(125)	200
Change in foreign exchange rates	(3,570)	(400)
Inflation net taxable gains	1,040	600
Withholding tax	545	125
Reduction in Canadian future income tax rates	2,560	–
Valuation allowance	370	1,635
Income tax expense	3,440	3,180

c) Future tax reconciliation

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

December 31, 2007	Canada	Mexico	Total
	(\$000)	(\$000)	(\$000)
Future tax assets			
Non-capital losses	7,340	1,480	8,820
Capital losses	3,960	–	3,960
Financing costs	600	–	600
Asset retirement obligations	–	960	960
Valuation allowance	(11,900)	–	(11,900)
	–	2,440	2,440

Notes to Consolidated Financial Statements

(stated in United States dollars)

Future tax liabilities			
Inventory	–	(1,642)	(1,642)
Mineral property, plant and equipment	–	(12,243)	(12,243)
	–	(13,885)	(13,885)
Net future tax liabilities	–	(11,445)	(11,445)
December 31, 2006			
(Restated)	Canada	Mexico	Total
	(\$000)	(\$000)	(\$000)
Future tax assets			
Non-capital losses	7,650	4,994	12,644
Capital losses	2,580	–	2,580
Investments	80	–	80
Financing charges	1,280	–	1,280
Asset retirement obligations	–	740	740
Valuation allowance	(11,530)	–	(11,530)
	60	5,734	5,794
Future tax liabilities			
Inventory	–	(1,247)	(1,247)
Mineral property, plant and equipment	(60)	(11,437)	(11,497)
	(60)	(12,684)	(12,744)
Net future tax liabilities	–	(6,950)	(6,950)

d) Loss carry-forwards

Non-capital losses available in Canada to be utilized in subsequent years are approximately \$25 million expiring between 2008 and 2026. Losses in Mexico amount to approximately \$5 million and expire over a 10-year period.

NOTE 19. 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 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 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.

Corporate Information

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

PACIFIC CORPORATE TRUST COMPANY

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

2008 ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of Alamos Gold Inc. will be held at 4:30 p.m. on Thursday, May 15, 2008, at the TSX Gallery – Conference Centre, located at street level at 130 King Street West, Toronto, Ontario, Canada.

INVESTOR RELATIONS CONTACT

Victoria Vargas, Investor Relations
Tel: 416.368.9932 Ext. 201
Toll-free: 1.866.788.8801 Ext. 201
Email: vvargas@alamosgold.com
Website: www.alamosgold.com

STOCK EXCHANGE LISTING

Stock Symbol: AGI
Exchange: TSX

AUDITORS

Ernst & Young LLP

222 Bay Street
Toronto-Dominion Centre
Toronto, Ontario M5K 1J7

LEGAL COUNSEL

Axium Law Corporation

1055 Dunsmuir Street, Suite 3350
Vancouver, British Columbia V7X 1L2

CORPORATE DATA

Head Office

Alamos Gold Inc.
120 Adelaide Street West, Suite 2010
Toronto, Ontario M5H 1T1
Tel: 416.368.9932
Toll-free: 1.866.788.8801
Fax: 416.368.2934
Email: info@alamosgold.com
Website: www.alamosgold.com

Mexico Office

Minas De Oro Nacional, S.A. de C.V.
Guerrero 109 Sur Int 16
Col. Centro
Hermosillo, Sonora
Mexico, C.P. 83000
Tel: +52.662.217.3707
Fax: +52.662.217.3716

MANAGEMENT & OFFICERS

John A. McCluskey, President and Chief Executive Officer

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

Board of Directors

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

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

Eduardo Luna, Technical, Environmental, Social and Employees' Health and Safety Committee

John A. McCluskey, President and Chief Executive Officer

James M. McDonald, Audit Committee, Corporate Governance Committee, Independent (Special) Committee (Re: Shareholders Rights Plan), Technical, Environmental, Social and Employees' Health and Safety Committee

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

John F. Van De Beuken, Chief Operating Officer

Mark Wayne, Audit Committee, Corporate Governance Committee

Below is a summary of our committee structure and membership information.

To read more about any of the committees, please visit our website at www.alamosgold.com.

	Audit Committee	Compensation and Nominating Committee	Corporate Governance Committee	Independent (Special) Committee (Re: Shareholders' Rights Plan)	Technical, Environmental, Social and Employees' Health and Safety Committee
Leonard Harris		●			●
Richard W. Hughes		●		●	
James M. McDonald	●		●	●	●
Eduardo Luna					●
Brian W. Penny	●	●			
Mark Wayne	●		●		
Chairperson ● Member ●					

